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The CRESSI project explores the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalized and disempowered citizens in society.

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Public Policy, Social Innovation and Marginalisation in Europe: A Comparative Analysis of Three Cases

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Creating Economic Space for Social Innovation

Public Policy, Social Innovation and Marginalisation in Europe: A Comparative Analysis of Three Cases[1]

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A Introduction

Over the last decade, social innovation has emerged as a prominent policy agenda that 'transcends both national borders and political divisions' (Sinclair and Baglioni, 2014: 469). Understood as a means and end to addressing societal challenges, the global financial crisis and subsequent imposition of budgetary constraints has stimulated interest in its putative capacity to do and achieve more with less within and beyond the public sector (TEPSIE, 2014; Terstriep and Totterdill, 2014). On this basis, the eclectic policy concept of social innovation has, *inter alia*, been drawn upon to encourage the 'integration of markets, the involvement of societal actors in the delivery of public services and the development of new modes of service delivery' and need provision (Massey and Johnston, 2016: 663).

Within EU public policy, a key feature of the Europe 2020 strategy is to facilitate and embed social innovation across the EU to 'deliver the kind of inclusive and sustainable social market economy we all want to live in' (BEPA, 2010: 16). In this respect, social innovation has been presented as a policy tool, approach and paradigm through which to foster greater co-operation and co-ordination between the public, private and third sectors, with a view to more efficiently and effectively addressing societal needs and challenges (Ayob et al., 2016). Political and policy discourse has not only framed this as a matter of 'socialising' the operation of the market economy, but also as a question of incorporating market features and actors into the public and third sectors across Europe.

Within the grey and academic literature, many commentators have critiqued this policy trend as a resignation to the 'neoliberal' terms and logic from which welfare austerity has emerged and need provision has become instrumentally conceived (Sinclair and Baglioni, 2014; Massey and Johnston, 2016). Others are less critical of social innovation and suggest that its privileged position in EU policy-making, demonstrates a profound dissatisfaction with the embedding of 'neoliberalism' and an emerging consensus on the need to explore new possibilities and solutions to growing social problems (Borzaga and Bodini, 2014; Langergaard, 2014; Green and Hay, 2015).

Beyond this, it appears that bi-partisan and cross-sectoral appeal in social innovation stems from its shifting and indefinite character (Ayob et al., 2016). Due to its essentially (and perhaps necessarily) contested nature, social innovation is able to accommodate a plurality of applications and motivations in European public policy (European Commission, 2013b; Edmiston, 2015c; Totterdill et al., 2015). This comes some way to explain its significant appeal and ostensible potential in galvanising resources and expertise to tackle marginalisation and improve human capabilities (von Jacobi et al., 2017).

At both the EU and domestic level, social innovation has been used across a variety of policy fields and heterogeneous contexts. Despite recognition of its varied conceptualisation and pursuit, the European Commission defines social innovation as:

> *'the development and implementation of new ideas (products, services and models) to meet social needs and create new social relationships or collaborations. It represents new responses to pressing social demands, which affect the process of social interactions. It is aimed at improving human well-being. Social innovations are innovations that are social in both their ends and their means.'* (European Commission, 2013b: 6).

As outlined below, the CrESSI research project adopts a different definition in trying to explore the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalised and disempowered citizens in Europe. In previous work undertaken as part of this project, a review of EU and domestic public policies found that social innovation is often ill defined and interchangeably associated with public service reform, welfare pluralism, social entrepreneurship, social (impact) investment, volunteering, the sharing economy, the social economy, and broader civil society (Edmiston, 2015b). At least at the member state level, social innovation is very rarely a central strategic policy objective. It tends to be presented as an addendum or means through which to realise other objectives central to the overall policy programme of institutional (as policies, rules and laws) and political administrations.

In this regard, the value and role of social innovation in EU public policy is often instrumentally conceived in a manner that aligns (or at least does not jolt too strongly) with the existing socio-political and economic settlement of a given institutional context. Crucially, if social innovation is prone to such institutional or cognitive capture, its transformative potential as a policy concept is greatly undermined. In addition though, it also leads to distinctive and idiosyncratic policy agendas across EU member states that have varied effects on the capacity of responsible organisations, networks and actors to tackle marginalisation. Building on work already undertaken as part of the CrESSI research project, the principal objective of this paper is to examine how social innovation is variously framed, supported and managed through public policy agendas across divergent institutional contexts. In doing so, it is possible to critically examine the efficacy of policy instruments that engender some capacity to foster social innovation capable of tackling marginalisation and the lessons this might garner for their future development in Europe and further afield.

A.1 Purpose of the Report

Thus far, CrESSI research has established the current status of EU level and domestic public policy agendas supporting social innovation that exhibit the potential to tackle marginalisation (Edmiston, 2015b). This research identified and rationalised social innovation policy development and divergence by reflecting on the socio-structural relations and the economic space within which marginalisation, social innovation and policy agendas have emerged across Finland, Germany, Hungary, Italy and the UK. This scoping of individual member state's social innovation policy agendas was undertaken to both contextualise EU level policy and provide an initial mapping of EU social innovation policy at the member state level. The selected EU member states represented 'unique non-ideal types' that differ significantly in their social, economic and political relations. These relations were found to give rise to distinctive political, policy, social and market responses that come some way to explain common and divergent public policy strategies to support social innovation.

The next phase of the project has focused on a more detailed examination and comparison of domestic social innovation policy agendas tackling marginalisation in Finland, Hungary and the UK. This report presents the main results of this phase of our project.

With different varieties of welfare capitalism, (social and public sector) innovation eco-systems, and varying degrees of marginalisation, an examination of one particular policy programme or instrument in each of the three countries makes it possible to:

- explore by what processes individual member states develop distinctive policy agendas for social innovation
- understand how social innovation policy reflects wider social structures and power relations within member states and across states
- identify where institutional dominance lies within and across member states in social innovation policymaking

Beyond this, the report seeks to explore the role of public policy and its effectiveness in achieving intended policy objectives through social innovation. By doing so, we will be able to identify the drivers of, and barriers to, 'success' of a particular policy programme and the intended and unintended effects of this. With that in mind, this report focuses in detail on three distinctive policies idiosyncratic to the 'economic space' of the countries considered and explores their effectiveness and efficiency in fostering social innovation capable of tackling marginalisation.

Importantly, social innovation policies can produce effects that are macro-institutional, organisational, procedural, discursive, and substantive for target populations, unintended, diffuse, and time-lagged. If an instance of social innovation is both a source and outcome of well-being (European Commission, 2013b), it is important to consider what role and value it has relative to existing approaches and paradigms of need provision. Any number of policy instruments and measures may effectively support new forms of finance, partnerships and networks, but whether these are capable of improving human capabilities through social innovation is another matter entirely. With this in mind, this report examines the role and value of social innovation policies with respect to their capacity to develop partnerships, networks and finance for social innovation that improve human capabilities of marginalised populations across Europe.

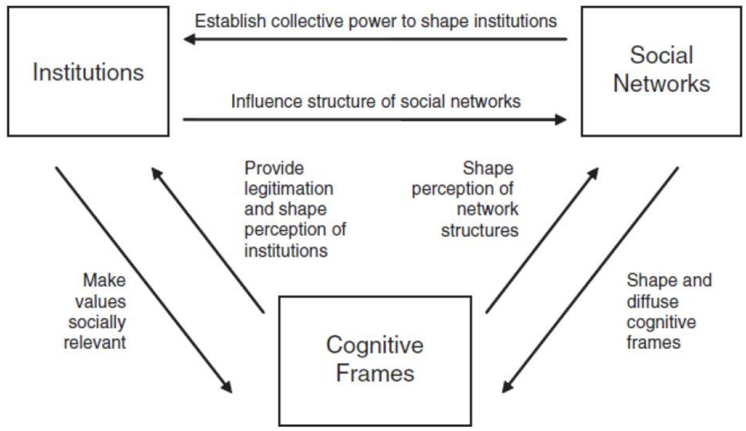
To ensure this comparative policy report is able to consider points of common ground across diverse socio-economic contexts, the policy instruments selected for consideration all seek to 'address social inclusion for the most marginalised and vulnerable populations' in each country through some measure of social innovation. In this regard, a distinction can be drawn between 'policies *for* social innovation' and 'policies *as* social innovation'. 'Policies *for* social innovation' include those designed to support social entrepreneurship, social service entrepreneurship and social change entrepreneurship. 'Policies as social innovation' denote those measures fostering public sector innovation through social policy entrepreneurship and social entrepreneurship policy-making via regulations, fiscal policy and public procurement. Of those policies selected for consideration in this report, either implicitly or explicitly, all aim to foster some degree of public sector innovation and social change entrepreneurship. This report focuses on the PAAVO housing programme in Finland, social impact bonds in the UK and social co-operatives in Hungary. These three policy instruments aim to support cross-sectoral collaboration and co-ordination to tackle the (economic) marginalisation of either particular or multiple target beneficiary groups.

In-depth examination of the three cases makes it possible to evaluate how different public policy agendas exhibit the capacity to shape, constrain and foster social innovation that is capable of meaningfully addressing the social structuration processes from which marginalisation, vulnerability and social exclusion arise. To do so, this report draws on 75 qualitative interviews undertaken with various stakeholders involved in, or affected by social innovation policy agendas. This includes practitioners, service providers, civil servants, policy-makers, advisors, researchers and field experts, elected officials and target beneficiaries. In addition to this, the research undertaken has drawn upon detailed documentary analysis of policy papers, legislation, media coverage, policy reports and documentation, academic literature, as well as independent and stakeholder evaluations. The analytical framework underpinning the CrESSI research project has guided this primary and secondary research.

A.2 Analytical Framework

As detailed elsewhere in CRESSI research outputs (e.g. Edmiston, 2015c), the analytical framework developed for this project draws upon three distinct but complementary theoretical orientations that focus on the processes and dynamics of systemic continuity and change; the power domains exigent upon these phenomena; and the contingent effects on human capabilities that arise as a result. From this framework it is possible to better understand the structural determinants of marginalisation and social innovation that operate within the market and social sphere. In order to tackle marginalisation, it is necessary to identify and address the structural processes that give rise to it. Similarly, the conditions under which social innovation flourishes or fails need fully to be understood to explore its potential as a driver of structural change and/or re-alignment. Viewed in this way, social innovation is essentially 'changes in the cultural, normative or regulative structures (or classes) of society that enhance its collective power resources and improve its economic and social performance' (Heiskala, 2007: 59).

Jens Beckert's theory (2009; 2010) on the social order of markets is particularly helpful in this regard. Beckert (2009) offers a critique of liberal economic theory to contest the role of self-interest, uncertainty and institutions in market exchange. Most useful for our purposes though is Beckert's synthesis of a number of institutionalist approaches that point to the institutional, cultural and social embeddedness of macro-structural dynamics and individual action. Relational patterns and socio-structural linkages (Granovetter, 1985; White, 2002); policies, rules and laws manifested in institutions (Dobbin, 1997; Fligstein, 2001; Welter and Smallbone, 2011); and cultural, interpretive and cognitive structures (Zelizer, 1997) all have a bearing on the character and dynamics of social and market fields. Rather than considering these three key 'social forces' in isolation from one another, Beckert (2010) suggests that these arenas of structuration should be considered as a part of a Social Grid whereby they operate in dialectic with one another to affect the social order of the market.



The Social Grid and the co-evolutionary relationships therein are able to capture ‘interaction between actors and their institutional, cultural, and social embeddedness. These social macrostructures and their dynamic changes play a more fundamental role in the study of ordering processes’ (Beckert, 2009: 264) than any liberal economic or fragmented conception of market fields. Extending this Social Grid beyond the remit of traditional market fields, it is possible to see how ‘institutions’, ‘social networks’ and ‘cognitive frames’ can shape the social and economic space within which marginalisation and social innovation occur.

> *‘I argue that networks, institutions, and cognitive frames are irreducible and that one important source of market dynamics stems from their interrelations. The structures lead to the stratification of fields by positioning actors in more or less powerful positions. At the same time, actors gain resources from their position which they can use to influence institutions, network structures, and cognitive frames. To simultaneously consider all three social forces in market fields and their reciprocal influences allows us to consider their interrelations as sources of field dynamics’ (Beckert, 2010, p. 606)*

From the international to the local level, institutions profoundly affect social relations and the capabilities of EU citizens. Policies, laws and regulations control the (re-) distribution of resources and services. This influences the extent to which individuals are marginalised from common experiences and opportunities available across the European Union. Political, economic and social institutions can constrain or enhance social innovation to address these phenomena. Social networks existing between and within EU member states determine the structure of social divisions. Patterned relations between individuals, groups and communities will dictate whether a particular social innovation is suitable, how it might work and what its effects could be. Finally, dominant attitudes (or cognitive frames) inform how socio-economic phenomena are understood and explained by the general public and policy-makers. Shared or common interpretations of societal challenges frame what solutions are conceived as possible or appropriate. For example, established ways of thinking and assumptions about the causes of poverty and social exclusion, inform policy responses to marginalisation and the extent to which social innovation is framed as a solution.

The second theoretical contribution informing CRESSI's analysis of social innovation and marginalisation centres on the work of Michael Mann. Mann (1986) advances a non-unitary conception of society and societal change that embraces explanatory pluralism. According to Mann, the intersection and interaction of different power domains and networks shapes social macrostructures and agency in unpredictable and complex ways. There are four irreducible social sources of power: ideological, economic, political and military relationships (Mann, 1986). These sources of power play a significant role in shaping individual and collective agency over our environment and one another. The ability to control and affect change is affected by hybrid networks of power that intersect to alter socio-structural relations. In turn, these relations shape the extent and character of marginalisation and social innovation.

The organisational structure of power 'will depend on continuous interaction between what power configurations are historically given and what emerges within and among them' (Mann, 1993: 10). The concentration and dispersion of power affects these relations and the extent to which it is possible for social innovation to address societal challenges. Power can be exercised within and across cultural, economic, military, political, scientific and environmental domains to enact the macro-structural context. The administration and implementation of social innovation embodies a variety of means and ends that work across these domains. The potential of social innovation is, therefore, dependent on power relations that exist within and across these areas. This raises questions about the relationship between power, marginalisation and social innovation. For example, who decides the priorities and strategic framework of the European Union? How do institutions govern the behaviour and outcomes of European citizens (particularly those that are marginalised)? Who controls common or shared ways of thinking? What role can social networks play in instigating a realignment of power when they are concurrently subject to power relations? The transference of power from the powerful to the powerless helps ensure that social innovations are enacted, but more importantly, that these are implemented in a way that maximally benefits the most disempowered citizens in Europe. Accordingly, if social innovation and innovative social policies intend to tackle marginalisation through structural change, it is necessary to take account of, and where possible address, the power imbalances that exist at the micro, meso and macro level.

Power is essentially the means to realise a diverse set of human goals. However, power acquires its social significance when an individual or group exercise their 'capacity to get others to do things that otherwise they would not do' (Mann, 2013: 1). The execution and distribution of power can be seen as contingent on and shaping the extended Social Grid and the dynamics therein. In light of this conception of power and the socio-structural dynamics that lead to marginalisation, the phenomenon of social exclusion is neither purely a material circumstance nor a social relation. It is also a marker of an individual's ability to exercise power and agency over their environment and circumstance. To overcome marginalisation, some realignment in power relations is needed if individuals are able to fully self-determine. The capabilities approach to human development and empowerment is particularly helpful in this regard and is the third theoretical contribution that informs CrESSI's analytical framework.

Developed by Amartya Sen (1999) and Martha Nussbaum (2006), the capabilities approach is principally concerned with the real freedoms and opportunities one has at their disposal to do and be what they have reason to value. This adds a useful normative dimension to CrESSI approach by considering the distributional and relational effects of socio-structural dynamics from the perspective of marginalised and disempowered citizens. This enables the project to go beyond an analysis that focuses purely on the economic effects of social innovation to consider the extent to which social innovations have affected the empowerment and self-actualisation of marginalised individuals. Capabilities are essentially a 'power to' to do and be something that is central to human dignity and self-determination. The status of capabilities then is largely reliant upon distributive and collective power. Understood in this way, 'the real opportunity that we have to accomplish what we value' (Sen, 1992: 31) is the source and outcome of tackling marginalisation and altering power relations to increase well-being.

From this, it is possible to develop a new definition (and ambition) for social innovation tackling marginalisation through structural change. Social innovation can be described as:

> *'The development and delivery of new ideas and solutions (products, services, models, markets, processes) at different socio-structural levels that intentionally seek to change power relations and improve human capabilities, as well as the processes via which these solutions are carried out.' (Nicholls and Ziegler, 2014: 2)*

Adopting this definition opens up the opportunity for unique social explanation and policy analysis. Taking a non-reductive approach that accounts for the multifarious ways in which marginalisation occurs and how social innovation may help, it is possible to assess the effectiveness of different policy agendas to engender social innovation across divergent institutional contexts in Europe.

A.3 Structure of this report

The structure of the report is as follows. Section A introduces the overall purpose and focus of the research undertaken and summarised in this report. Each of the three case studies is then discussed in detail to examine the origins, implementation and effects of public policies designed to foster social innovation.

Section B, authored by Jari Aro, examines the Finnish case and the PAAVO housing programme. In Finland, there is a strong tradition of government-sponsored innovation, particularly technological innovation. The more recent concept of social innovation has stimulated considerable debate, but there is still as yet, little shared understanding of what social innovation amounts to or entails in Finland. The PAAVO housing programme was launched by the Finnish Government in 2007 with two phases: "PAAVO 1" over the period of 2008-2011 and "PAAVO 2" over the period of 2012-2015. The principle objective was the permanent reduction of long-term homelessness by converting temporary shelters into housing units and acquiring rental housing for the homeless based on the 'Housing First' principle. The financial support system for acquiring, building and re-purposing housing units, as well as the implementation of joined-up housing support services, has proven instrumental to the achievements of the programme in reducing long-term homelessness. Similar to other public policies that demonstrate some capacity to foster social innovation, the PAAVO programme sought to facilitate new networks of governance, action and organisation that transcend existing sectoral boundaries in welfare and need provision. For a social democratic welfare regime such as Finland, this presents new opportunities and challenges for tackling marginalisation.

Section C presents research on social innovation and social impact bonds in the UK context. In comparison to other EU member states, there is a stronger and much more explicit social innovation public policy agenda in the UK. Particularly since 2010, political and policy rhetoric has, towards different ends, advanced the case for social innovation. In policy terms, horizontal policy interventions have attempted to scale social innovation as a holistic concept. Vertical policy interventions have attempted to embed specific aspects of social innovation in service design and delivery to address common (but rarely specified) economic and societal challenges in a pre-emptive manner. Perhaps the clearest manifestation of policy interest in social innovation has been the development of social impact bonds. As a payment-by-results contract that leverages private social investment, social impact bonds have been presented as a vehicle through which to support innovative service interventions for marginalised groups to improve their social outcomes and opportunities. As such, examination of social impact bonds makes it possible to explore the role of private social investment in outcome-based commissioning and how this affects public sector innovation, the capacity of third sector organisations, the social outcomes of targeted populations and the cost-savings accrued through public service reforms.

Section D considers how social innovation policy is understood and applied from a 'transition economy' perspective through Hungarian social co-operatives. Despite limited public support or recognition of the concept, there is growing interest in social innovation in Hungary. One of the principle factors impelling interest in its application and potential is the large inflow of EU funds, much of which is tied to the promotion of social innovation (Kengyel, 2013). As a result, policy attention and interest in the concept of social innovation has tended to entail the adoption of an approach to public governance that coheres with EU policy and investment strategies pertaining to social business, innovation, work integration activities, the sustainability of the social economy sector and the social inclusion of disadvantaged groups. With this in mind, the Hungarian case focuses on the development and operation of social co-operatives as entities which seek to create 'employment opportunities and facilitate by other means the improvement of other social needs of its disadvantaged members' (Law 2006.X). In 2012, newly introduced legislation made it possible for local authorities to become members of social co-operatives. In many instances, these 'new type' social co-operatives and their development are intimately linked to local public works programmes. The Hungarian case critically examines whether these measures exhibit the capacity to foster effective social innovation capable of tackling marginalisation.

The remainder of this report presents findings from a comparative and evaluative analysis of the three case studies of social innovation policy and draws more explicitly on the analytical framework developed for the CrESSI research project. Reflecting on the institutions, social networks and cognitive frames observable in each country, Section E examines the distinctiveness and institutional embeddedness of public policy agendas shaping and constraining social innovation. Drawing on the capabilities approach, Section F reflects upon the opportunities and challenges that social innovation policy presents in addressing the actual and potential factors of disadvantage that lead to marginalisation. Section G reflects upon lessons learnt from each of the three cases to consider the (a)political nature of social innovation policy-making across Europe. The report concludes by consider the role of power in social innovation policy-making and whether, as a contested policy concept, social innovation is being used to disrupt or consolidate existing power relations within the EU.

B PAAVO Housing Programmes in Finland

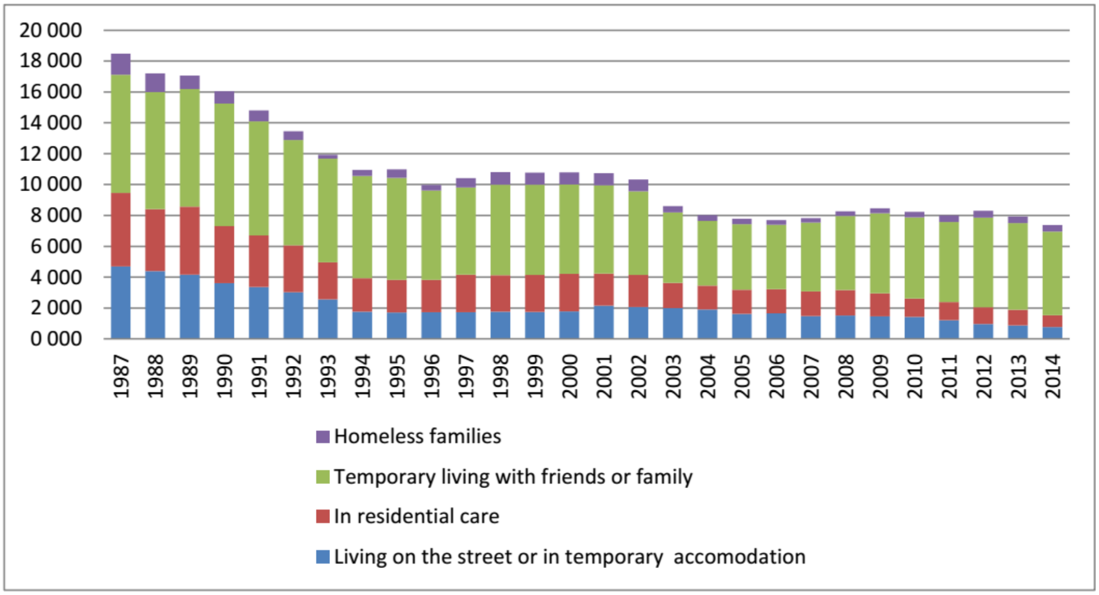
PAAVO was a government initiative to reduce long-term homelessness in Finland. PAAVO is an acronym of ‘PitkäAikaisAsunnottomuuden VähentämisOhjelma’ - translated literally as ‘Reduction of Homelessness’. The programme was active in two phases, PAAVO 1 over the period of 2008-2011 and PAAVO 2 over the period of 2012-2015. According to an international review panel, the main goal of the programme, permanent reduction of long-term homelessness, has been reached (Pleace et al., 2015). The basic idea was to acquire rental housing for the homeless in housing units linked with social care services specified to meet the resident's needs. Residents live in their apartments on tenancy agreements. The key underlying concept was to provide housing services to long-term homeless people in line with the ‘Housing First’ principle. The Housing First principle is based on the idea that a homeless individual's primary need is to obtain stable housing with other issues addressed after that (rather than the other way around, as is often the case in so-called ‘Staircase Models’).

According to Luomanen (2010), the following are defined as homeless:

- People staying outdoors, staircases, night shelters etc.
- People living in other shelters or hostels or boarding houses for homeless people
- People living in care homes or other dwellings of social welfare authorities, rehabilitation homes or hospitals due to lack of housing
- Prisoners soon to be released who have no housing
- People living temporarily with relatives and acquaintances due to lack of housing (the majority of the homeless)
- Families and couples who have split up or are living in temporary housing due to lack of housing

According to ARA (2015: 4), ‘a person is defined as being long-term homeless if they have continued to remain without a fixed abode or have been placed under threat of an extended period without a fixed abode as a result of social or heath-related factors for more than one year or they have repeatedly experienced homelessness over the course of a three-year period’. Between 2008 and 2015 the rate of long-term homelessness decreased by 37% (1,345 persons). At the end of the year 2015 there were a total 6,785 homeless people living in Finland, 2,252 of which were long-term homeless (Population of Finland is 5,5 mil.) (Ministry of the Environment, 2016).

Figure B.1: The number of homeless people for the period 1987-2014



Source: (ARA, 2015)

The network in PAAVO programme was large: Ministry of the Environment, Ministry of Social Affairs and Health, Ministry of Justice, the Housing Finance and Development Centre of Finland (ARA), Finland's Slot Machine Association (RAY), the Criminal Sanctions Agency and 11 cities: Helsinki, Espoo, Vantaa, Tampere, Turku, Lahti, Jyväskylä, Kuopio, Joensuu, Oulu and Pori. The housing units and related social services were run by municipalities own organisations, private companies and third sector organisations. After PAAVO, the work to prevent homelessness and to reduce the risk of long-term homelessness is being continued with the new 'AUNE programme', which started in spring 2016 (Ministry of the Environment, 2016).

PAAVO was launched by the Finnish government and, in that sense, is quite a typical example of a top-down approach to social innovation. Interesting questions concerning it are: Why its results were relatively good (when compared to other similar projects or policies in the EU)? And, in what sense it was a social innovation?

B.1 Origins of the PAAVO Programme

The origins of the PAAVO programme can be traced back to 1987 when the Finnish government started an active policy to reduce homelessness. At that time, the number of homeless people in the whole country was over 18,000. In less than ten years the number decreased to roughly 10,000 persons. Due to the severe economic recession in Finland in the 1990s, there was a danger that homelessness would start to rise again. In 1999, the Finnish government launched a series of programmes and strategies to reduce homelessness and these were operational until 2005. As a result of these programmes and an increase in the supply of rental apartments, the total number of homeless people in Finland fell to under 8,000 persons in 2005.

Between 1987 and 2005, the development of housing and homelessness policy greatly improved the situation of those families and persons who were principally faced with temporary homelessness, as opposed to other social problems. One lesson learnt during this period was that there remained the more indelible problem of long-term homelessness – where an entrenched group of long-term homeless people needed additional support and services in order to cope in everyday housing and living. For this particular group of homeless people, the provision of accommodation would not be enough, their situation demanded additional support and assistance. This point was clearly made in a report evaluating programmes tackling homelessness in the early 2000's (Kaakinen et al., 2006).

Other important factors contributing towards the development of the PAAVO programme include the creation of institutions and policy measures that gradually changes approaches to housing policy and tackling homelessness from the 1980s onwards. Firstly, this entailed attempts to reduce social and residential segregation through the provision of 'decentralised supported accommodation for homeless people in rented accommodation acquired from private owner-occupied housing companies' (Tainio and Fredriksson, 2009: 184). Established in 1985, organisations such as the Y Foundation were instrumental to this project with many letting small housing units to local authorities, who then sub-let these to those in need of supported accommodation. By 2009, there were around 30,000 housing units (Tainio and Fredriksson, 2009: 184).

Secondly, changes in legislation concerning social welfare, disability services, mental health promotion and assistance for those faced with alcohol or drug dependency have (re-) defined homeless people as a target beneficiary group within housing policy. Two legislative Acts have been especially important. The 'Act on Interest Subsidy for Rental Housing Loans and Right of Occupancy Housing Loans' (604/2001) defined the status of non-profit social housing corporations and social housing construction. This act regulates the social aims of social housing corporations, how dwellings can be applied for, and how profits from these corporations are shared. Another important piece of legislation was the 'Act on Subsidies for Improving the Housing Conditions of Special Groups' (1281/2004). This Act regulates the issuing of investment grants to housing projects that seek to help groups whose housing conditions are poor and income exceptionally low and who require support services in their housing, due to substance abuse, mental health problems and other allied problems. Together these two acts made it possible to allocate public resources for reducing homelessness among long-term homeless (Saari, 2015).

Despite these measures, homelessness, particularly within big cities, began to increase from 2005 onwards. This was due to the rising cost of housing, and a gradual process of rented flats becoming owner-occupied apartments. The reduced supply of affordable rented accommodation meant that those most vulnerable to social exclusion were further marginalised from the housing market.

Historically, housing markets in Finland have been strongly differentiated within the country. Compared to the initial period of modernisation that occurred between the 1960s and 1970s, Finnish society has experienced an even more radical migration from remote rural areas to big urban cities over the past 25 years. The trend towards urbanisation has increased the need for housing construction in growing municipality centres and has led to problems associated with insecure accommodation and homelessness. Homelessness is a particular problem in the capital city Helsinki and in the neighbouring cities Espoo and Vantaa. Overall, two thirds of all homeless people in Finland are in these metropolitan areas.

In growing urban municipalities, demand and supply for small, affordable housing rarely meet. On the supply side, the main reasons for this are that: a) housing construction has tended to centre on large family homes and at the same time single person households have become more commonplace – this has led to a relative under-supply of small apartments or housing units within the Finnish housing market; b) the share of social housing production by foundations and municipalities has steadily fallen; and c) sources of finance and the share of public funds for tackling homelessness have been declining. On the demand side, the main reasons are that: a) homeless people cannot afford to pay rents in the private housing market; b) social security revenues and housing allowances have not kept pace with rising rents; and c) homeless people have often lost their 'creditworthiness' due to unpaid debts or becoming unemployed. According to the Social Welfare Act, municipalities are legally obliged to take care of the health and wellbeing of their inhabitants, which includes providing housing for those who have not/cannot secure it independently. However, homeless people often have poor political power and representation in the municipal decision making process. As a result, there is often very little political pressure to address their needs in the municipal setting (Saari, 2015).

In spite of this, the PAAVO programme emerged from the Finnish government's policy programme in 2007. Prime Minister Matti Vanhanen's second cabinet (2007 – 2010) was a coalition of four parties: the Centre Party, the National Coalition Party, the Greens and the Swedish People's Party of Finland. As a part of the government's housing policy, a programme for reducing long-term homelessness between 2008-2011 was prepared. In the Finnish political system, the Government Programme functions as a policy instrument in and of itself. All political objectives, programmes and actions for the coming term are listed in the programme, which has the status of a binding agreement between parties in the cabinet. As a result, what is mentioned in the programme has a great deal of influence over the policy direction of the incumbent political administration. The programme was not definitively specified in the Government Programme, so there was a certain degree of freedom and flexibility in terms of its implementation. One exceptional and important feature of the government's housing policy was that the Prime Minister Vanhanen declared that the programme would last for 8 years, not just over the 4-year term of his cabinet.

Other key areas in the housing policy programme included measures to increase the supply of construction sites and affordable rented accommodation in metropolitan areas (Ministry of the Environment, 2008). PAAVO was split into two parts. The time span of PAAVO 1 was the same as the planned term of government - 4 years. After parliamentary elections in 2011, the subsequent government continued PAAVO 2 in its government programme. Prime Minister Jyrki Katainen's cabinet was a wider coalition of the National Coalition Party, the Social Democrats, the Greens, the Left Alliance, the Swedish People's Party of Finland and the Christian Democrats.

Whilst there is little definitive explanation of why the PAAVO housing programme received political backing in Vanhanen's second cabinet, there are a number of contributing factors. First, political and policy experiences from previous housing programmes were generally positive. Second, the tools for executing social housing projects such as PAAVO were available e.g. legislation, funding instruments, institutional practices for re-letting apartments, network of actors and organisations. Third, key civil servants in ministries had noted the problem of long-term homelessness and investigated possible solutions to tackling it. Fourth, the state's financial situation and investment policy made it possible to direct resources to the programme. Fifth, key political actors had political will and power to commit themselves (and public finances) to it.

In 2007, MP Jan Vapaavuori of the National Coalition Party was elected as the Minister of Housing and gave instruction for the preparation of a new policy programme to tackle long-term homelessness. The first measure was to appoint an advisory group (Group of Wise) to develop a strategy for reducing long-term homelessness. Members of the groups were: the Director of social services in the City of Helsinki, Paavo Voutilainen; the Bishop of Helsinki, Eero Huovinen, the managing director of Y-foundation, Hannu Puttonen, and medical doctor and long-time activist on homelessness, Ilkka Taipale. As a fixed-term civil servant and consultant in the Ministry of the Environment, Juha Kaakinen was secretary of the group. This cross-sectoral group delivered a report on a strategy to tackle long-term homelessness in October 2007 (ARA, 2007).

According to the advisory group, the programme for reducing long-term homelessness is motivated by three core principles. First is the ethical duty to provide a decent standard of living and environment to homeless people. Second, both national legislation and international agreements require Finnish public authorities to address the problem of homelessness. Third, reducing homelessness is an economically rational endeavour, because it reduces social and health care costs. These justifications have proven particularly influential over time and feature significantly in evaluations of the PAAVO programme (e.g. Pleace et al., 2015).

The Ministry of Environment also appointed another committee (the so-called Programme Group) to prepare a more detailed plan for the PAAVO programme. Members of the committee represented a wide spectrum of organisations and actors:

- city municipalities of Helsinki, Espoo, Vantaa, Tampere;
- Ministry of the Environment and Ministry of Social Affairs and Health;
- Housing Finance and Development Centre of Finland (ARA);
- Finnish Slot Machine Association (RAY);
- Non-governmental organisations including Helsinki Deaconess Institute, Kriminaalihuollon tukisäätiö (Krits) which improves the status and living conditions of released prisons, Evangelical Lutheran Church of Finland, Sininauhasäätiö which provides social support services to homeless people and substance abusers and Vailla vakinaista asuntoa which is a union founded by homeless people themselves;
- Finnish Central Association for Mental Health;
- Y-Foundation; and
- Setlementtiasunnot Oy which is a corporation owned by the Finnish Federation of Settlement Houses and Kalliola Settlement that builds and manages rental and right-of-occupancy apartments.)

In its report published in January 2008, the committee presented an action plan and an estimation of costs associated with the programme (ARA, 2008). At this point, the programme was intended to last until the end of 2015. The action plan proposed two types of measures. First, building new houses, renovating old apartments and converting old dormitory accommodation into housing units, designed especially for long-term homeless people. Housing in these new units would be based on tenancy agreements. Second, providing support services and housing advice for people living in these units. The plan also included special proposals for preventing homelessness among newly released prisons and young people.

According to the action plan, the majority of new dwellings were to be located in Helsinki, Vantaa and Espoo, with the rest concentrated in other cities where homelessness is most acute (i.e. Tampere, Turku, Lahti, Kuopio, Joensuu, Oulu and Jyväskylä). The Housing Fund of Finland (ARA), the Ministry of Social Affairs and Health and the Slot Machine Association (RAY) were to provide a great deal of the financial backing for the programme.

From its inception, the ideological basis and ethos of the programme was underpinned by the Housing First principle which suggests that:

> *'Solutions to social and health problems cannot be a condition for organising accommodation: on the contrary, accommodation is a requirement which also enables other problems of people who have been homeless to be solved. Having somewhere to live makes it possible to strengthen life management skills and is conducive to purposeful activity.' (Luomanen, 2010: 14)*

This idea was adopted into the PAAVO programme and it marked a significant change to the so called 'staircase approach' which conventionally requires a homeless person to demonstrate their ability to be 'rehabilitated' before they are able to attain secure accommodation. In many respects, the embedding of the Housing First principle into Finnish homelessness prevention policy and welfare practices can be regarded as the central social innovation of the PAAVO programme:

> *'The basic idea behind the housing first concept as developed in Finland is a housing package where accommodation and services can be organised according to the resident's needs and abilities and social welfare and health requirements. A person is allocated independent accommodation - a home - and services that differ in their intensity are established around this. Services are implemented via partnership working between the accommodation provider and public social and health services. Important aspects of this concept include community living and civic participation.'* (Luomanen, 2010: 14)

The main elements of the Finnish approach are: a) secure permanent accommodation with a tenancy agreement; b) reducing the use of conventional shelters and changing them into supported, rented accommodation units; c) the prevention of eviction by means of housing advice services and financial support; d) drafting plans for individual rehabilitation and services; d) guidance in the use of normal social welfare and health services, and e) civil action: greater initiative, peer support and community building (Luomanen, 2010: 14).

One significant reason behind the successful implementation of the programme was that key political actors were committed to it. Many individuals interviewed for this study noted that the Minister of Housing, Jan Vapaavuori, skilfully negotiated funding for the programme within the government and managed to secure additional resources already allocated (€10.3 million) to the Ministry of Social Affairs and Health and re-allocate these to the PAAVO. This part of the funding proved essential to the success of the programme as it was used for support services in housing units.

B.2 Fostering Social Innovation? Finance, Partnerships and Networks

On the 14th February 2008, the Finnish government committed to implementing a programme to tackle long-term homelessness. This commitment came shortly after the proposals outlined by the Programme Group. The objective of the programme was to 1) halve long-term homelessness by 2011 and 2) intensify measures to prevent homelessness in the first instance. The quantitative target was set to create about 1,250 new dwellings, supported housing or care places specifically directed towards long-term homeless people. Of these, 750 would be in Helsinki, 125 in Vantaa, 125 in Espoo and a total of 250 in the following cities: Tampere, Turku, Lahti, Kuopio, Joensuu, Oulu and Jyväskylä.

The decision in principle specified that the Housing Finance and Development Centre of Finland (ARA) would allocate investment grants to the programme during the period 2008 - 2011 at a maximum of €20 million per annum. On this basis, long-term housing of the homeless in shelters and hostels would gradually be abandoned in favour of residential units which enabled independent, subsidised and supervised living.

ARA is an office under the administration of the Ministry of Environment. To run its organisation, ARA receives funds from the state budget. However, in addition to this ARA also administers and manages the State’s Housing Fund ("Valtion talousarvion ulkopuolinen rahasto" (VAR). VAR sits outside the state’s public budget and gets its income from government guarantee fees, interest fees and amortizations of old housing loans, which the state has over decades granted for social housing. Regulations dictate how and for what purposes VAR funds can be used. Housing investments undertaken as part of the PAAVO programme secured VAR funds, because homeless people are defined in the welfare legislation as a group with special needs. This important form of ‘investment subsidies for special-needs groups’ made it possible to improve the availability of affordable and accessible accommodation for many long-term homeless people through the PAAVO programme. Beyond this, ARA provided a number of ‘interest subsidy loans’ to support housing renovations and developments. Because building housing units for special-needs groups is defined as a social welfare activity, VAT was not collected on building costs. Taken together, these measures made building and renovating housing units in the programme more cost-effective and therefore less risky.

The Slot Machine Association (RAY) would allocate investment grants to eligible associations, organisations and foundations responsible for residential homes, for basic renovation work and for converting accommodation into subsidised and supported dwellings. The Ministry of Social Affairs and Health would finance the production of support services for new serviced accommodation units under the programme. The State would fund 50 per cent of salary costs. Between 2009-2011, the Slot Machine Association (RAY) would support organisations, which develop and arrange subsidised accommodation for clients of the probation service. The Criminal Sanctions Agency would, in collaboration with the cities and NGOs producing housing services, undertake a development project to produce local and client-specific practices for the subsidised housing of homeless prisoners. The decision in principle also included measures for preventing homelessness among the young and stipulations to local authorities to launch housing advisory services and practices to prevent evictions.

Another important instrument in the execution of the PAAVO programme was the agreed letters of intent between central government and participating local authorities. Each of the city municipalities were instructed to draw up detailed plans of how they were going to implement the programme. These plans specified the need for housing solutions and support and preventive action, they identified and scheduled projects and other measures and they detailed the use of social rented housing stock to support the programme. Agreements between the cities and the state contained a section common to all the agreements and a separately tailored section for each city, which detailed the projects for that city. The common sections defined the starting points of the programme, the objectives and responsible parties, the target group for the programme as well as the start of the agreement and its monitoring. The city-specific sections agreed the funding, timetable, staffing levels and target group in detail for each of the projects to be funded.

These letters of intent established city municipalities as active partners in the implementation of the PAAVO programme. Agreement between the cities and the state was easily reached, because the arrangement was mutually advantageous. Investment grants and interest subsidies for loans, as well as resources for new support services from the state budget gave a strong incentive for cities to join support and participate in the programme. It was especially beneficial to the city municipalities to convert old shelters and hostels into rented apartments, because they were able to secure resources through state housing allowances. As a result, a significant proportion of the housing costs for homeless people were transferred from local authority to state budgets (Saari, 2015: 152).

Each local authority made contracts with local service providers with procedures varying from city to city. In Finland, public sector organisations, non-governmental organisations and non-profit foundations traditionally provide housing services for homeless people. Despite this variety, the standards of services are typically defined quite precisely and housing units and services will depend on the different groups of homeless people receiving assistance (Saari, 2015: 152-153). For example, the city of Tampere started five projects in 2009 with five different service providers. The level of intensity of housing services varied according to the target group in each unit. The largest target group were long-term homeless people who face additional barriers to securing accommodation due problems challenges associated with substance abuse or mental health problems. Two other groups receiving assistance include young homeless people needing special support and newly released prisoners and probation service clients. Usually, clients are expected to observe a policy of no drugs and/or alcohol consumption but some housing units make an exception to this. Service users receive resource-orientated, solution-focused support and counselling that is intended to be rehabilitative. The ultimate aim of the social work approach underpinning this is to support the rehabilitation of clients towards independent living (Kaakinen, 2012). Housing units provide different types of support services and the level of intensity or scale of these services also varies. Units have their own rules and practices concerning attendance in common meetings, activities, abstinence and visitors.

In order to get a place in supported accommodation, a client needs to apply to the welfare unit of their relevant local authority. During the process, the client is interviewed and his or her needs for housing and support services are assessed and agreed. Methods and policies of this process vary between cities. However, the following items are usually checked with the client and with his or her consent in co-operation with other authorities: current housing situation and housing history (possible unpaid rents, problems in housing, evictions), financial situation, state of health, social relations, abilities in everyday housing, substance abuse. Client preferences about the type of housing and support services are taken into consideration. If the welfare office makes a positive decision, then the housing unit and client make a housing agreement for the next available and suitable vacancy. In negative cases, clients have the right to complaint.

Re-letting as an innovation in social housing

In many respects, the re-letting system used in the PAAVO programme can be understood as a social innovation. It is an instrument to increase the supply of affordable rented housing. The re-letting model gives benefits to all parties: homeless people are better able to attain affordable and secure accommodation; owners of housing units get a guarantee that rents will be paid and accommodation will be kept in a good condition; and municipalities come some way to addressing the housing shortage within their areas.

Re-letting is a common model in all social housing in Finland and is not limited only to the PAAVO. The system, in its paradigmatic form, entails a property owner (e.g. foundation, non-profit organisation, housing company owned by the municipality) renting their housing unit(s) to either a non-profit organisation or the social services division of a local authority. The non-profit organisation or municipality acts as a landlord to the dweller that makes a rental agreement with him or her. In the rental agreement between the property owner and the non-profit organisation or municipality, value added tax (VAT) is added to the rent. In the rental agreement between the non-profit organisation or municipality and the dweller, VAT (currently set at 24%) is not collected and therefore the rent is lower than the market rate. In most cases, dwellers in housing units receive a general housing allowance from Kela - The Social Insurance Institution of Finland. Kela is financed through statutory contributions from employees, employers and funding from the public sector. In 2015, the state's share of funding was about 69%, with contributions accounting for about 26% and local government payments accounting for about 5%. The general housing allowance received by tenants has statutory maximum limits of housing costs and usually rents in housing units remain below these thresholds.

The VAT paid by the municipality or non-profit organisation is refunded by central government. The refund is prescribed in Social Welfare Act. (Article 37: "Tax is not payable on the sale of goods and services in the form of social welfare." Article 38: Social welfare means activity by the State or by a municipality as well as activity by some other provider of social welfare services, provided that it is conducted under the supervision of the social welfare authorities, and where the aim of the activity is to provide for the care of children and young people, nursery day care, geriatric care, care of the mentally handicapped, other services and support measures for the disabled, for care of addicts and other similar activities.)

In the re-letting model, rental of accommodation and other social and housing support services are separated out into different entities. This separation is intended to safeguard the permanence of secure accommodation for tenants, even if the organisation providing social and housing support services changes. Social and support services within housing units are procured by municipalities. The contract period is not decreed in public procurement law but contracts typically last between 3 and 4 years. Municipalities can use both price and quality criteria when selecting service providers.

The PAAVO programme and 'Housing First' as social innovations

Alongside the re-letting model of social housing provision, the 'Housing First' principle underpinning the PAAVO programme can be understood as a key instance of social innovation. Within the Finnish social service system, the 'Housing First' principle was a novel approach to tackling the causes and effects of homelessness (Tainio and Fredriksson, 2009). Based on the available evidence, it is clear that the PAAVO programme and the Housing First approach that underpinned it had a number of positive effects on the way homeless people were treated in housing support services (Kainulainen et al., 2013). Living conditions in housing units were much healthier, safer and granted more privacy to tenants than homeless shelter accommodation had done previously. Many of the stakeholders interviewed for this study felt that, because of PAAVO, homeless people were being treated in a much more humane way than before. It was believed that this enabled them to better define and pursue their own needs and goals.

On a political level, one result of the programme and 'Housing First' principle has been that long-term homelessness has become a defined and independent political issue. It is now commonly regarded as a social issue, which requires its own policy and actions. It is also worth noting that, in political decision-making, nobody has so far presented the opinion that resources from this group should be diminished. Political disputes surrounding homelessness usually pertain to localised and administrative issues, such as the location of new housing units or challenges associated with service provision and the potential migration of homeless people into a particular area.

The PAAVO programme itself can be understood as a vehicle through which the innovative 'Housing First' approach has been embedded into the field of housing support services for homeless people. By using political power and money, it was possible to replace elements of the long-standing 'staircase' approach to housing support service provision, even if some organisations and actors were against it (Tainio and Fredriksson, 2009). The 'Housing First' approach was not purely an ethical justification for the programme but also entailed the exploitation of existing political and social forms of power. One innovative way to increase the security of housing for long-term homeless people was ensuring that a rental agreement existed between tenants and landlords. In this respect, the tenant was granted greater autonomy and power in the social housing system.

Beyond this, the actual administrative process of implementing PAAVO had some innovative features. Key civil servants interviewed for this study felt that the letters of intent between central government and local municipalities were central tools that ensured the effective implementation of the programme. These letters of intent increased the commitment of local decision makers to it, who were also obliged to assist in clearly specified and defined ways. Another important aspect was the breadth and scale of the programme and the network that was created through its implementation and operation. By targeting resources towards city municipalities it was possible to ensure that resources were most effectively and efficiently used to assist the greatest number of long-term homeless people possible. By assembling a large group of actors within clearly defined localities and projects, resources were targeted towards collaborative and co-ordinated working between multiple stakeholders (Pleace et al., 2016).

Housing units are often located in renovated buildings whose premises are not originally designed for such purposes. Especially in Helsinki, some premises have over 100 housing units in one building. High density housing premises can be a problematic environment for tenants who often desire to move into independent housing. Whilst the housing unit may create a safe environment where services are readily available, it is also possible that there is a certain degree of stigma attached to living in such places. One of the key objectives of PAAVO, and the 'Housing First' approach underpinning it, is that housing and support services should guide long-term homeless people making use of housing units towards independent living and accommodation (Kettunen, 2013).

In most cases, living in a housing unit increases the quality of life and opportunities of homeless people – their general health status and capabilities in everyday life improves (Kainulainen et al., 2013; Pleace et al., 2015). However, housing units have their own procedures, rules and regulations. If abstinence is expected on the part of service users, it can often cause conflict between housing support staff and tenants. The use of money and running into debts is another issue, which causes a number of difficulties in housing. One clear problem in the whole model is that if the dweller, for some reason, should leave the housing unit (of his/her own will, by being "signed off") he or she, at the same time, drops out also from the support services the unit provides. This highlights fundamental tensions between increasing the autonomy of service users whilst also exerting a degree of paternalism over their choices and behaviours through housing support services. How this reconciles with increasing the capabilities of target beneficiaries is a complex question that reveals tensions in logic and approach of the PAAVO programme.

Raitakari and Juhila (2012) have written about the inevitable tensions that arise between the old and new paradigms of housing support service provision. The 'Housing First' approach is intended to decrease homelessness and to support an individual's integration into his or her own lived environment. Undoubtedly, the intended objectives of independent living, increased autonomy and freedom of choice are important and worth striving for. However, there also remains the important question of how the social welfare system, beyond the PAAVO programme, can better support an individual’s integration into broader society.

In Finland social services for homeless people have traditionally been arranged in co-operation between public sector welfare organisation (through central government and local authorities) and non-governmental organisations.

All major Finnish cities run their own housing units as part of their existing public social services. Non-profit organisations involved in this work include: foundations with connections to political parties, the labour movement or other interest groups; associations and unions doing social work with released prisoners or other groups; and religious unions and foundations. Providing housing services for special groups has been a relatively closed sector in Finnish welfare.

However, due to recent changes in regulations on public procurement, the field is changing. Private companies are increasingly interested in participating in the field of housing support and social services. During the procurement of service providers, municipalities are able to factor in both the price and quality of a service offered. During interviews undertaken for this study, representatives of non-governmental organisations and housing unit service providers expressed concern that competition in public procurement is becoming tighter. Many are worried about the possibility that price, as opposed to quality, becomes a decisive criteria in contracting external organisations to deliver welfare services.

The Finnish government is currently preparing an ambitious health and welfare services reform. In the future the responsibility to organise public health and welfare services will be on larger regional authorities, and not on municipalities. It is impossible to say at this point, what the outcome will be, but this is likely to affect the structure of housing support and social services delivered in their current form.

Overall, there appear to be at least four distinctive social innovations in the PAAVO programme. First, broader recognition of long-term homeless people as a unique group of individuals, within the wider category of homeless people, has lead to a new form and ethos of service provision. As a group with special needs, interventions and support through PAAVO has centred on the premise that this group is internally heterogeneous – there are several reasons why people may be at risk of becoming long-term homeless and equally this has different consequences for different people. Acknowledgement of this has led to the provision of specialist housing and support services in order to help long-term homeless people manage and progress in their day-to-day lives and accommodation. Second, the ‘Housing First’ approach to housing support services and the use of rental agreements alongside this has proven instrumental to the ‘rehabilitation’ of many service users.

Third, the financial support system for acquiring, building and re-purposing housing units for the long-term homeless has proven instrumental to the successful implementation of PAAVO. Without changes in legislation and regulation concerning groups with special needs and concerning models and practices of social letting, it would not have been possible to assist service users and finance social innovation in the intended way. It has to be said that the programme was never principally intended as an instrument to finance social innovation. But again, if we think that housing first was a social innovation, then of course PAAVO was an effective means to finance the use of it and most likely the housing first idea would not have been implemented to such scale without the programme. Fourth, the letters of intent, and the steering model of planning and implementation that it fostered a collaborative approach that produced a network of actors and organisations in service operations. In this regard, PAAVO encouraged co-operation and networks at the local level between service providers and local authorities. In many cases, effective and holistic housing and support services depended on, but were also facilitated by joined-up, specialist service provision. In many respects, this represents a broader trend in local service infrastructure to develop and support co-ordination between a variety of cross-sectoral actors and networks to holistically assist target beneficiaries in Finland.

The nature and significance of these cross-sectoral relationships highlight a number of important questions and trends that feature as part of the PAAVO programme. In Finland, housing services have traditionally been provided by third sector organisations and PAAVO programme was built on this traditional division of work within this arena. One reason for this tradition is a certain path dependency of financing housing services. Namely, the RAY has for a long time been the central source of finance for non-profit associations in Finland. However, the field of housing services is currently in a phase of change because new private companies are showing interest joining the ‘market’. As a result, the privileged position of third sector organisations as the providers of services is not as stable as it has traditionally been in the past. One factor contributing towards this change is the introduction of new regulations in public sector procurement, which position private companies and non-profit associations as equal competitors when they negotiate contracts with the public sector. Of course, this development is not the result of the PAAVO programme, but part of a more comprehensive marketization process of social services.

In conclusion, welfare services in Finland are quite capable of innovating and developing service provision. However, the problem lies more in the development and implementation process. Local authorities are typically small and have quite a limited social services workforce. As a result, they do not always have the necessary resources to explore, support and test service experimentation and innovation. The PAAVO programme, through its centrally supported development and implementation, made it possible to invest in a policy designed to support and share information and experiences on a social innovation designed to help long-term homeless people.

In many respects, PAAVO followed a top-down (from centre to periphery) model: in the sense that resources were given from the ministry and it was made clear to the cities that they would receive resources only for agreed operations. The degree of detail in the letters of intent between the Ministry of Environment and the city municipalities ensure all targets were listed and resources were attached to these. An important factor shaping the success of the programme was the level of commitment to it by local politicians and civil servants, which made it easier to direct the process of implementation. Equally important was that all relevant actors and institutions (ministries, cities, third sector organisations and financing organisations) took part in the planning phase of the programme and in the steering committee of the programme.

B.3 Tackling Marginalisation?

The principle objective of PAAVO 1 was to halve long-term homelessness by 2011 and intensify measures to prevent homelessness. The original quantitative target of PAAVO 1 programme was to create about 1,250 new dwellings, supported housing or care places specifically directed towards long-term homeless people. By the end of 2015, the number of flats and supported housing units created was 1,864, so the target was clearly exceeded (ARA, 2016).

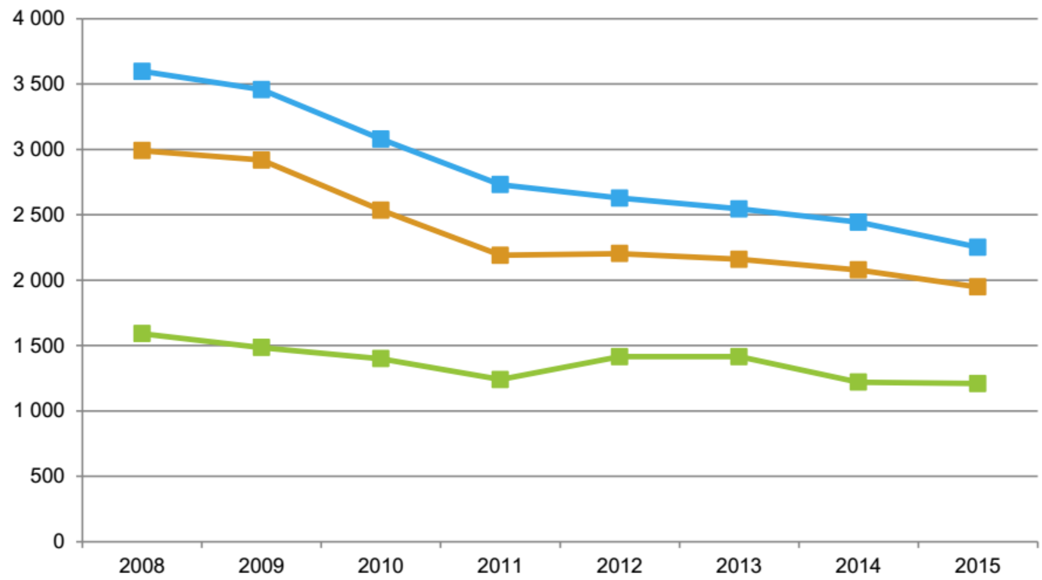
Table B.1: Accommodation funded by ARA in cities that signed the PAAVO letter of intent 2008-2015

City	New Services	Base-level improvement /project	Total
Espoo	166	125	291
Helsinki	307	433	740
Joensuu	48		48
Jyväskylä		38	38
Kuopio	144	10	154
Lahti	98		98
Oulu	24		24
Tampere	196	106	302
Turku	60		60
Vantaa	76		76
Pori	33		33
Paavo Total	**1,152**	**712**	**1,864**

Source: (ARA, 2016)

Those cities participating in the programme have received approximately €73.6 million in funding from ARA. This funding has supported the development of places of residence, through construction, renovation, or procurement. In addition, RAY granted funds approximately totally €35 million to buy flats for supported housing during the PAAVO 1 programme period to Y-Foundation and four non-governmental organisations. Through these funds, over 360 flats were secured. As a result, the pre-defined target for the number of residences created was exceeded during PAAVO 1. However, neither the halving nor the total elimination of long-term homelessness was achieved over the course of PAAVO 1 and 2.

Figure B.2: Paavo long-term homelessness municipalities, 2008-2015



(*Blue: In Finland; Orange: Paavo cities; Green: Helsinki*)

Source: *(ARA, 2016)*

The diagram above shows the number of long-term homeless people in Finland (top line), in all cities participating in the PAAVO programme (middle line) and in Helsinki (bottom line). This information is based on data collected by ARA from municipalities and is drawn from statistical data on a single day of the year. There are inevitable limitations associated with such an indicator. However, it is the only time series available and provides insight into the impact of the programme.

Between 2008 and 2015, long-term homelessness in Finland decreased by 37% (1,345 persons), in PAAVO cities by 35%, in Helsinki by 24%, in Vantaa by 11% and in Espoo by 36% (ARA, 2016). Five cities participating in the programme (Tampere, Joensuu, Lahti, Oulu, Pori) managed to reach the object of halving long-term homelessness. In one city, Kuopio, the number of long-term homeless people increased over the period of programme (ARA, 2016).

The ambitious aim - to first halve and then eradicate long-term homelessness - was not reached. By comparing the development from 1987 to 2006 and from 2007 to 2015, it is clear, that the reduction of homelessness has been significantly slower during the latter period. However, Saari (2015: 158-159) has noted that during the implementation and operation of the programme, the Finnish economy went into a long recession. This has increased the number of those people who have a relatively weak position in labour market and are consequently vulnerable to the problems associated with insecure accommodation. One might have expected this to increase the number of homeless people in Finland. However, this is not observable in available statistics. In fact, homelessness actually decreased for the first time to fewer than 7,000 people in 2015. In a review of progress made to date and the impact of the PAAVO programme, the European Federation of National Organisations working with the Homeless concluded that

> *'Finland is the only EU country in which homelessness continues to decrease despite the economic recession and social pressures. Even though the bold goal of removing long-term homelessness was not reached, according to the international assessment of the programme by researchers, the work to eradicate homelessness produced undeniable results, and Finland is one of the best example of applying the Housing First principle successfully.' (Ministry of the Environment, 2016: 2)*

On this basis, one could argue that the PAAVO programme and attendant housing policies have prevented a rise in homelessness in Finland, which would otherwise have occurred.

At the outset of the PAAVO programme, the advisory group (Group of Wise) argued that reducing long-term homelessness would produce a number of economic benefits and savings. The cost-effectiveness of preventative interventions and housing units has been calculated in a number of case studies. Case studies in the cities of Jyväskylä and Helsinki investigated the process of general housing counselling and its economic impacts. The main purpose of housing counselling is to prevent evictions and give support to tenants faced with housing-related problems. Whilst these studies could not give definitive estimations of possible economic benefits, they concluded that the impact of these interventions was positive (Ministry of the Environment, 2011). The cost-effectiveness of housing units has also been studied in three different PAAVO housing units. In these studies, the cost of a single housing place in a housing unit was compared against the savings, which may consequently arise from a reduced use of health and social care services as well as other welfare costs.

These studies concluded that the savings were substantial, mainly because people living in housing units use intensive and expensive in-patient treatment services much less than long-term homeless people do on average. In general, a service user's state of health improves significantly after they move into supported housing units (Ministry of the Environment, 2011; Sillanpää, 2013). In spite of this, some warn against over-estimating, or indeed over-valuing, the cost-effectiveness of the PAAVO programme in terms of its savings to the public sector:

> *'Monitoring shifts in undesirable outcomes, both in the individual sense and in terms of the financial costs to society is important. It is, however, problematic to reduce this to considering whether, for example, the costs of long-term homelessness to the criminal justice system or to emergency medical services have reduced. This is because these services have fixed costs that are only very marginally influenced by long-term homelessness.' (Pleace et al., 2015: 93)*

Beyond an actuarial evaluation of the PAAVO programme, it is clear that the programme had a number of beneficial effects on the rates of long-term homelessness in Finland and the overall well-being of service users (Kainulainen et al., 2013; ARA, 2016). Importantly though, there appears to have been an embedding of the approach underpinning and lessons learnt from the programme in Finnish housing policy (Ministry of the Environment, 2016). This centres on preventative, joined-up service provision to tackle the causes and effects of homelessness and its attendant social problems:

> *'This means not only integrated service networks strengthened through programme work and the early identification of problems leading to homelessness, but also the sufficient production of reasonably priced housing in all of the largest urban areas'*
> *(Ministry of the Environment, 2016: 2)*

To a great extent, PAAVO was typical of a Scandinavian welfare model approach to social innovation: the state had a central and leading role in fostering its development. Central actors in the programme were the state, local authorities and third sector organisations and funding for the programme principally came from public sources (i.e. ARA, RAY and Ministries).

It is clear that the 'Housing First' approach was one of the central innovations within the programme - it offered a new model for organising housing services for homeless people in Finland. It is clear that development of the programme was heavily influenced by American and European approaches to 'Housing First' with many civil servant incorporating lessons learnt from existing models. However, service experimentation and innovation associated with the 'Housing First' principle was undertaken on the front-line (e.g. the Helsinki Deaconese Institute housing unit) prior to the development and implementation of the PAAVO programme. In addition, many of the proposals associated with housing service reform had already been advanced by organisations such as the "Vailla vakinaista asuntoa" ("No fixed abode") association. By adopting the 'Housing First' approach as a central organising principle of the PAAVO programme, the idea was institutionalised as a part of the national policy of finding solutions to the problem of long-term homelessness in Finland.

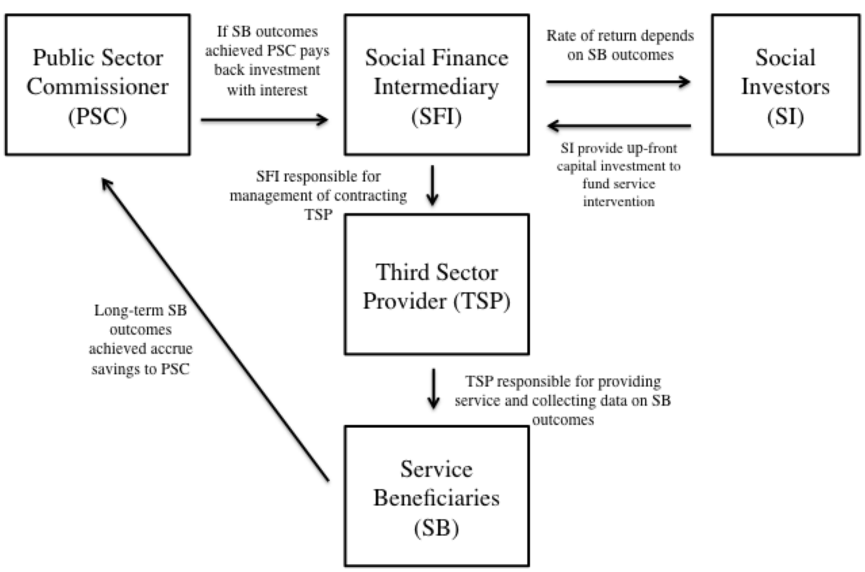
Based on work undertaken as part of this study, stakeholders involved in the reduction of homelessness clearly expressed the opinion that both the ‘Housing First’ approach and the old ‘Staircase’ model are in use and needed for different groups of homeless people. In future, the successful embedding of the ‘Housing First’ approach and lessons learnt from the PAAVO programme, will depend on effective co-operation and interaction between local organisations, civil servants and practitioners. Whilst it has clearly been beneficial for a significant number of target beneficiaries, it remains to be seen how an approach, based on such high-level principles, will be pragmatically implemented and what benefits this might engender for homeless people in terms of tackling their socio-economic marginality in the future.

C Social Impact Bonds in the UK

This section explores the purported benefits and risks of social impact bonds (SIBs) as a policy instrument designed to promote public service reform, scale social investment and tackle social exclusion. In many respects, SIBs represent a commitment to embed social innovation in social policy that is relatively idiosyncratic to the UK context. There are currently few SIBs across Europe. However, as an emerging policy field, the number of contracts is growing and at a fast rate. Whilst the majority of operational SIBs are currently based in the UK, there a much greater number of SIBs in development worldwide (Social Finance, 2016).

SIBs are essentially payment-by-results contracts that leverage private social investment to cover the up-front expenditure associated with costly social and welfare services. Capitalising on the expertise and skills of civil society organisations and social enterprises, service interventions tend to be preventative in nature and focus on achieving one or more specified social outcomes. These outcomes are intended to focus on tackling the causes of social exclusion and thereby reducing long-term public expenditure in key policy domains. The theoretical cost-savings accrued by the public sector are used to fund the service and cover the dividends paid to private social investors. Rather than paying for service inputs or outputs, contracts pay for pre-defined outcomes associated with a range of objective and subjective metrics that dictate both the amount received by service providers, but also the rate of return received by private social investors (Warner, 2013; Hughes and Scherer, 2014).

Figure C.1: The Structure of a Social Impact Bond



Descriptive accounts of SIBs and their prospective risks and benefits offer an important foundation for academic analysis in this area. However, the next step demands a critical consideration of the drivers, barriers and impact of SIBs as a social innovation policy agenda. With this in mind, this study of SIBs draws together emerging literature in the field as well as documentary analysis and qualitative fieldwork undertaken in relation to three distinct SIBs. From this, it is possible to observe a number of common and divergent experiences and patterns and thereby make some broader inferences about how and why particular social innovation policy agendas succeed or fail in tackling marginalisation. SIBs tend to be specifically targeted at populations with highly complex needs, most vulnerable to social exclusion and policy failure. The empirical evidence gathered from this study can be brought to bear on the putative opportunities and challenges SIBs pose for social innovation tackling marginalisation.

The three SIBs under consideration are all part of the first cohort of UK SIBs so they are further into their development than those that have been more recently established. As such, it is possible to more fully explore their development and impact. In this sense, this research not only explores the immediate effects but also the 'legacy' of interventions that have sought to foster social innovation capable of tackling marginalisation. The three SIBS under consideration are as follows:

- The Children's Support Services Programme commissioned by Essex County Council designed to improve the situation and outcomes of children on the edge of residential care;
- The 'New Horizons' Programme commissioned by Department for Work and Pensions designed to improve educational and employment prospects for vulnerable young people in Greater Merseyside area; and
- The SIB for rough sleepers commissioned by Department for Communities and Local Government and Greater London Authority to improve outcomes for entrenched rough sleepers.

Each of these SIBs involves a variety of cross-sectoral stakeholders: investors, intermediaries, service providers as well as public sector commissioners from central and local government. With different funding models, payment metrics and systems of impact measurement, these SIBs demonstrate how internal and external power dynamics can impinge on the development of SIBs as a means and end of social innovation. Table C.1 below outlines some of the key features of each SIB.

Examination of these three SIBs entailed desk-based research of independent and stakeholder documentation as well as qualitative interviews with EU and domestic policymakers, public sector commissioners, social financial intermediaries, service providers and service users. Notably, a great deal of the existing literature ‘is from sources that have an interest in promoting the benefits of SIBs’ so critical care needs to be taken in reviewing the evidence and documentation available (Ronicle et al., 2014: 24). A total of 41 interviews were undertaken to explore stakeholder experiences of and perspectives on SIBs. Research findings have been disseminated as part of a practitioner seminar, policy roundtable and conference symposium and the feedback received during these events has informed the research process. The following organisations and individuals contributed towards the research:

- European Investment Fund
- Cabinet Office
- Department for Work and Pensions
- Department for Communities and Local Government
- Greater London Authority
- Essex County Council
- Cambridgeshire County Council
- Bridges Ventures Fund
- Triodos Bank
- Social Finance
- Big Society Capital
- Action for Children
- Thames Reach
- St Mungo’s Broadway
- Greater Merseyside Connexions Partnership
- CAF Venturesome
- Social Investment Business Group
- Individual (social) investors
- Service beneficiaries

Whilst the specificities of each SIB affect its performance, operation and impact, the findings from this analysis are presented thematically to draw out broader lessons that can be learnt about SIBs as an instrument that seeks to foster social innovation.

Online Appendix 1: Key Features of the Social Impact Bonds

	Essex: Children on the Edge of Care	Merseyside: New Horizons	London: Rough Sleepers	
			Street Impact	Thames Reach Ace
Target Population	380 young people (11-16) on the edge of care or custody	3,900 disadvantaged young people (14-19) who are, or are at risk of becoming, not in education, employment or training (NEET)	831 individuals that have been observed "bedded down" at least six times in the past two years. Identified through Combined Homeless and Information Network (CHAIN) database.	
Intervention	2 Multi Systemic Therapy (MST) Teams	Interventions include group sessions, 1-2-1 coaching, 'mental toughness' training, signposting to provision, access to ring-fenced job interviews and links to employers. Carried out on partner premises and in schools.	Tailored interventions based on circumstances of individual. Longer-term interaction and support to assist beneficiaries into stable accommodation, thereby improving health, training and employment outcomes.	
Public Sector Commissioner	Essex County Council	Department for Work and Pensions (via Innovation Fund)	Greater London Authority (and funded by Department for Communities and Local Government)	
Service Provider	Action for Children	Greater Merseyside Connexions Partnership	St Mungo's Broadway	Thames Reach
SIB Intermediary	Social Finance Ltd	Triodos Bank UK	Triodos Bank UK	N/A
Special Purpose Vehicle	Children's Support Services Ltd	Triodos New Horizons Ltd	Street Impact Ltd	N/A
Investors and/or Funders	Bridges Ventures Social Entrepreneurs Fund (27%), Big Society Capital (27%), Barrow Cadbury Trust, Tudor Trust, Esmee Fairbaim Foundation, King Baudouin Foundation, Charities Aid Foundation, Social Venture Fund (8%), David Burnett	Bridges Ventures, Big Society Capital, Esmee Fairbairn Foundation, Charities Aid Foundation, Knowsley Housing Trust, Helena Partnerships, Liverpool Mutual Homes, Wirral Partnership Homes	CAF Venturesome, the Orp Foundation, St. Mungo's Broadway and other individuals	Big Issue Invest, Department of Health Social Enterprise Fund, Thames Reach and other individuals
Contract	5 year service delivery period and a 3 year period for tracking of final outcomes	3 year service delivery contract	3 year service delivery period and a further year for tracking of final outcomes	
Social investment	Initial investment of £3.1 million, growing to a potential £5.9 million	Initial investment of £1.5 million, growing up to £4.5 million	Initial investment of £887,000, growing up to £2.4 million	Unknown but growing up to £2.4 million
Payment Metric(s)	Total days adolescents from a treated cohort spend in residential care, measured over 30-day time periods.	Re-engagement with education, achieving educational qualifications, starting and sustaining employment and/or training.	Transition into accommodation, initial and sustained reconnection (repatriation), training and education outcomes, starting and sustaining employment, reduced use of accident and emergency services.	

C.1 Origins of UK Social Impact Bonds

It goes without saying that SIBs, particularly their origins, operation and impact all depend on the contextual specificities from which they emerge. This section explores the distinctive institutional conditions under which SIBs have emerged as a defining feature of social innovation policy in the UK. Public policy can be seen as the complex manifestation of social processes and power relations that give rise to institutional dominance, as well as prevailing frameworks of action and modes of thinking. In this sense, public policy is both 'structured' and 'structuring' – it is a manifestation of social and political relations as well as a mechanism by which to affect these relations. The 'institutional, cultural and social embeddedness' (Beckert, 2009: 264) of public policy makes it particularly important to consider policy agendas within their historical context. Arguably, there are a number of institutional conditions that have contributed towards the development of UK SIBs.

Firstly, as a liberal welfare regime, the UK is traditionally characterised by a system of residual means-tested provision, low levels of de-commodification and higher levels of social stratification (Esping-Andersen, 1990; Raffass, 2016). Within this context, policy measures designed to tackle social exclusion tend to pursue strategies of labour market integration (Levitas, 1996). Notably, a significant majority of the UK SIBs base at least one of their payment metrics on education, training or employment outcomes (cf. Gustafsson-Wright et al., 2015). Whilst over half prioritise employment as a key social outcome and payment metric, others treat labour market integration as a key condition that contributes towards overcoming marginalisation. These SIBs pay for social outcomes that move individuals closer towards the paid labour market. In this regard, UK SIBs are a symptomatic feature of prevailing liberal welfare arrangements in the UK context.

Secondly, the development and implementation of SIBs can largely be seen as a continuation of policies designed to embed welfare pluralism within public services. Beyond its well-rehearsed ideological motivations, welfare pluralism seeks to increase the efficiency and effectiveness of welfare services by drawing on the expertise and skills of civil society organisations and the market logics of private actors. Since the 1980s, there has been a concerted commitment to embed entrepreneurial and 'enterprising' approaches into the management, organisation and delivery of welfare provision. As a policy instrument, SIBs involve private actors in the delivery, control and finance of welfare services and represent the next phase towards an increasingly mixed economy of welfare.

Alongside the quasi-marketization of welfare, successive rounds of public service reform have sought to encourage outcome-based commissioning and payment-by-results contracts. Attempts to modernise public services have been characterised by a move away from paying for service outputs and towards paying for service and social outcomes. In this respect, SIBs are part of 'a new ideational landscape that has emerged for the third sectors in the Anglo-Saxon cluster dominated by a focus on transparency, impact and social innovation' (Phillips and Smith, 2014: 1158). As a contract and financing model that depends on the fulfilment of pre-defined social outcomes and payment metrics, SIBs represent a key instrument (or rather product) of public sector reform and innovation.

The persistence of old social problems and the emergence of new social risks have raised questions about the operation and function of the contemporary welfare state in the UK. Since the 1990s, there has been an increasing preoccupation with the capacity for the welfare state to facilitate social investment. Social investment is intended to address the causes, rather than the effects of social problems and disadvantage. The rise of third way politics in the UK stimulated an increasing interest in welfare services that invested in the human capital of beneficiaries, but also contributed towards economic growth and development. In keeping with the social investment approach to welfare provision, SIBs are often understood as an opportunity to address intractable social problems that inhibit 'economic and human development, leading to the persistence of social inequities' (Gustafsson-Wright et al., 2015: 1). In this vein, SIBs are based on a principle of preventative service intervention that seeks to tackle the root causes of social disadvantage, reduce the cost of welfare and maximise its economic contribution.

In light of the 'austerity consensus' (Farnsworth and Irving, 2012) that has emerged in recent years, the increasing pressure on and cuts to public social spending have stimulated interest in public sector innovation and social impact investment. Essentially, a lack of economic space has cultivated a mandate and case for social innovation in public policy. In an attempt to leverage new forms of capital, SIBs 'represent the continuation of a trend by successive UK governments to reduce direct public investment in social services while simultaneously encouraging increased investment from private sector financial and other intermediaries' (McHugh et al., 2013: 252). The public sector seeks to leverage these alternative forms of finance in a way that increases the effectiveness and efficiency of social services (Big Lottery Fund, 2010). As such, SIBs are the latest policy instrument to marketise, modernize and reduce the fiscal burden of costly welfare interventions.

Having moved away from an initial period of social democratic welfarism, ideological and political shifts have challenged the role and function of welfare in the UK. Since the 1980s, social politics has brought the social democratic principle of welfarism into contestation and dispute. Successive rounds of public service and welfare reform have sought to constraint the increasing financial and social commitment to welfare provision. Subsequent to SIB developments under New Labour, the opposition Conservative party included SIBs within their manifesto platform *Big Society, Not Big Government* during the May 2010 general election. As a part of this, the party promoted 'Social Impact Bonds, that offer a blend of social and financial return that is attractive to socially responsible, mainstream investors' (Conservative Party, 2010). Since the consolidation of their political position, the Conservatives have demonstrated a political, administrative and financial commitment to SIBs. In many respects, SIBs characterize an 'ideological shift which favours removing delivery of social and welfare services from conventional public or third sector providers… and they mark a significant challenge to the traditional ethos and operation of the voluntary and community sector.' (McHugh et al., 2013: 253).

Taken together, the institutional conditions outlined above have proven instrumental to the development of SIBs as a social innovation policy agenda in the UK context.

C.2 Interaction between domestic and EU policy agendas

SIBs are not only changing the way civil society organisations realise their social mission, they also represent a concerted commitment to transform the landscape and ethos of public sector commissioning (Bridges Ventures, 2016). Independently of SIBs, the notion of outcome-based payments and contracting is gaining terrain and has received considerable institutional support at both the EU and domestic level - see for example the Social Impact Accelerator and the Social Outcomes Fund.

To a great extent, the growth of SIBs are the latest development in a broader trend towards welfare pluralism in the UK (Cabinet Office, 2014; Cabinet Office, 2016a). Successive rounds of public service reform have sought to enhance the effectiveness and efficiency of social and welfare services. Arguably, SIBs are at the current apex of outcome-based public sector commissioning that seeks to encourage innovative and dynamic services capable of delivering the best social results and value for money possible. Having said that, particular features unique to the SIB model also represent a novel development or change in approach to the mixed economy of welfare. Nicholls and Tomkinson (2015) point to three 'new' elements that make SIBs unique: the length of contracts, outcome-based payments and private investment in social and welfare services.

The elevated role of private actors and organisations in both the funding and control of social and welfare services introduces new degrees of complexity into the mixed economy of welfare. Whilst the mere presence of private actors in the delivery, funding and control of welfare services does not amount to social innovation or privatisation, their increased presence offers a number of opportunities and constraints for tackling marginalisation.

Within the context of fiscal austerity, SIBs represent a unique opportunity to cover up-front expenditure associated with costly social services. At a time of unprecedented cuts to departmental budgets and front-line services, the significant public investments committed to SIBs demonstrate a concerted effort to modernise public services (Cabinet Office, 2010; Cabinet Office, 2011; Cabinet Office, 2016a). The first SIB was developed under New Labour but was launched in 2010. In 2012, the Cabinet Office also established the Centre for Social Impact Bonds to promote the development of 'more and better' SIBs across central government and local government. The various measures and funding schemes introduced seek to:

- strengthen the social investment market;
- help stakeholders manage and reduce the high transaction costs associated with the establishment of SIBs;
- encourage civil society organisations to become investment ready and adopt a more entrepreneurial approach to fulfil their social mission ; and
- encourage public authorities to commission innovative services that offer social value as much as value for money (HM Government, 2012)

Since 2010, central government has committed substantial funds to support the development of SIBs and outcome-based commissioning so that these might be taken up more widely across central and local government. The Social Outcomes Fund (£20 million) and Commissioning Better Outcomes Fund (£40 million) were conceived to tackle some of the primary barriers inhibiting the growth of SIBs. They provide a 'top-up' contribution to outcomes-based commissioning designed to deal with complex and expensive social issues. According to the Big Lottery Fund, the Commissioning Better Outcomes Fund is specifically designed to support the development of 'more innovative approaches to improving social outcomes. This is to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities'. The DWP Innovation Fund (£30 million), the Youth Engagement Fund (£16 million) and the Fair Chance Fund (£15 million) are supporting the development of 21 SIBs in total. These SIBs focus on disadvantaged young people aged between 14 and 24. Services are being provided to tackle homelessness, unemployment, poor educational attainment and/or improving training outcomes for this group. In the latest Autumn statement, the Chancellor of the Exchequer announced that the incumbent political administration would be investing a further £105 million over the course of Parliament to expand support for SIBs. This includes an £80 million fund for a Commissioning Outcomes Support Partnership designed to support outcome-based contracting and SIBs.

In March 2016, this lead to the establishment of a five-year partnership between the Blavatnik School of Government at the University of Oxford and the Cabinet Office to establish a 'Government Outcomes Lab' that 'develops world-leading research in this field and provides practical, on the ground support to local commissioners'. In response to the announcement, Minister for Civil Society Rob Wilson stated that:

> *'Social Impact Bonds represent a revolution in the way government can deliver public services. They generate huge potential savings for the taxpayer, the prospect of increased revenues for charities and social enterprises and returns to social investors'*

In addition to this, £40 million has been ring-fenced to support NHS England in commissioning innovative interventions that seek to improve health and work outcomes.

Whilst SIBs should be recognised as a distinct type of payment-by results model, they can be seen as part of a broader movement towards outcome-based commissioning in the UK. According to a recent report published by the National Audit Office, there are 52 schemes with an element of payment-by-results contracting that are known across 6 central government departments and their affiliated bodies (NAO, 2015: 13-15). These schemes are worth a total of £15 billion. This includes the consolidation of all welfare-to-work schemes into the Work Programme which is believed to be worth between £3 and £5 billion (NAO, 2015) and the introduction and extension of the Troubled Families programme which is worth up to £668 million. In addition, the Transforming Rehabilitation scheme, run by the Ministry of Justice is worth up to £3.1 billion and DFIDs international PbR aid schemes are worth up to £2.2 billion.

The European Investment Fund has, through intermediaries, partly funded a number of UK SIBs via the Social Impact Accelerator (Edmiston, 2015c). This reflects a general alignment between the European Commission's strategic commitment to social impact investment and the UK's relatively advanced social investment market (e.g. European Commission, 2014a; European Parliament, 2014). From this, it is possible to trace the effects and interactions of policy agendas at different structural levels all the way through from grass-roots perspectives and experiences of marginalised individuals to motivations and interests of European policymakers and stakeholders.

C.3 Fostering Social Innovation? Finance, Partnerships & Networks

SIBs facilitate innovative welfare interventions designed to improve the outcomes and opportunities of target beneficiaries. To this extent, SIBs are a mechanism through which to facilitate social innovation. However, beyond this, SIBs can also be seen as a social innovation in themselves that seek to leverage alternative forms of finance, build public-private partnerships and develop effective social networks, with a view towards tackling the causes and outcomes of marginalisation.

C.3.1 Financing Social Innovation

The key policy and practitioner documentation argues that SIBs offer a unique opportunity to leverage private sector capital in a way that fosters social innovation (e.g. Big Lottery Fund, 2010; Hughes and Scherer, 2014). According to Social Finance, SIBs exhibit the 'potential to unlock an unprecedented flow of finance for social sector organisations. By focusing returns on outcomes, these organisations will be incentivised to develop innovative interventions to tackle ingrained social problems which weigh heavily on our society and national purse'. These forms of capital investment, and the dividends expected based on service performance are believed to encourage an outcome-centred approach to welfare interventions.

Whilst service outcomes are ultimately paid for by the public sector, SIBs are understood as a key mechanism to foster social impact investment capable of addressing social need. This view was shared by a number of policymakers and social finance stakeholders interviewed for this research. SIBs, and the development of social impact investment more generally, was seen as a way to tap resources that would otherwise remain unused or inaccessible to organisations capable of generating significant social value through these ventures:

> *'Yes there's a lot of money in the world and there's a lot of rich people in the world and yes there will be a certain amount of rich people who will want to give a certain proportion of their wealth away but there's also a large proportion of people with money that don't want to give it away and actually what social investment gives you is an opportunity for money to be accessed and recycled.' (social finance stakeholder)*

For some social finance stakeholders, SIBs were seen as a 'financial product' that was at the more extreme end of the social impact investment market compared to more traditional and 'vanilla' vehicles such as charitable loans. Stakeholders across the board felt that the introduction of private capital opened up economic and reputational space for flexible, innovative and experimental service interventions. Many stated that these 'small scale and experimental' projects were only possible because private investors were taking on, either all or part of, the financial and reputational risk in return for a prospective financial reward (Warner, 2013: 6). In this respect, SIBs can be understood as transferring at least some of the 'financial risk away from government and small providers and onto social investors' (Kohli, 2010; Disley et al., 2011: 16):

> *'There is no expectation of making money, any super-normal profits at all, yet the investor stood to lose all their money.' (social finance stakeholder)*

This opens up opportunity for policy experimentation and innovation that would otherwise not be possible, or perhaps even justifiable within the context of budgetary constraints. The involvement of private social investment minimises certain reputational risks in the event that service outcomes are not met. However, certain forms of reputational risk are also introduced with public sector commissioners regularly accused of [privatising public goods] and social investors of '[profiting from poverty]'. This sort of reputational risk was certainly felt to be a concern by key policymakers and stakeholders. In certain instances, interviewees gave expression to the idea that it was particularly important for the first round of SIBs to 'be seen to succeed' as a 'proof of concept' priority in the early stages of their development.

Social investment individuals and organisations often sit on the board of directors that control, assess and performance manage the service interventions of SIBs. The motivations, interests and concerns of these investors are particularly important if we are to fully understand the potential and operation of SIBs. Beyond this, their motivations provide some insight into the future development of social impact investment. Having interviewed a number of social investor and social finance investment intermediaries, it is clear that the incentives and goals of social investors are wide-ranging.

For some investors, social impact investment sits within a broader portfolio of philanthropy through which they are able to commit a larger amount of funds than they would otherwise normally donate philanthropically:

> *'I feel able to back some social investments with more investment money than I might be able to do with gift money which I think is part of the logic of social investment in the first place: unlocking genuinely new money' (social finance stakeholder)*

> *'I've invested twenty times more money than I would normally give in the form of say a donation because I have a level of confidence that I'm going to get my money back and I think it's a thoroughly worthwhile cause' (social finance stakeholder)*

Having interviewed a number of social finance stakeholders, it appears there is a difference between the baseline concerns of individual investors compared to organisations engaged in social impact investment through funds of funds. For organisations, the rate and guarantee of return seems to be of much greater importance:

> *'Organisations are much more focused on the money coming back as it were because obviously these are operating as entities. They're businesses. They've got bills to pay as it were and so you know getting the money back and the money being lent out at the right rate and the right price – that's something for the entities much more than the individuals because if I'm doing this as an individual – you know I've got my own motivations. Yes I may want the money back but actually it's probably not the end of the world to me if it doesn't come back or comes in at a lesser rate. (social finance stakeholder)*

Some investors were concerned about increasing the efficiency and effectiveness of public social services. Others were interested in encouraging charities and social purpose organisations to act more transparently and effectively. For one individual, SIBs were seen as a ‘powerful way of reducing the involvement of government’ in the delivery of welfare services. This was based on a belief that organisations outside the public sector could more effectively deliver social and welfare services – especially if they drew upon social impact investment.

For many social finance stakeholders, SIBs were much more about a ‘proof of concept’ than necessarily the specific social problem or issue at stake. These individuals stated that they were not particularly interested in the service intervention or social outcome in question. Instead, they were principally concerned with the potential of social investment and the operational and efficiency benefits that it purports to offer.

> *‘If the early SIBs could work, work well and be seen to work well then it would encourage more money to come into the sector, encourage more charitable and social welfare organisations to be funded though that mechanism – which I think is a very good thing.’ (social finance stakeholder)*

> *‘I would say I’m definitely more motivated by the model. I mean I did look at the particular project but my core interest was the model’ (social finance stakeholder)*

For the social sector organisations whose raison d’être is their social mission, it may be particularly difficult to reconcile their own position with that of investors. Having said that, social finance stakeholders also suggested that investors were motivated by a social and economic return. For many stakeholders, SIBs and social investment more generally represent an opportunity to move beyond a privatistic model of income-generation to ensure that capital is both accumulated and used in a way that has social and economic returns.

> *‘... the opportunity to use their money to do good without them losing it if you like and I think that’s a win-win situation’ (social finance stakeholder)*

> *‘You’re really taking a sub-normal return on your investment- you’re risking your capital but you’re a getting really good moral return on your buck’ (social finance stakeholder)*

By virtue of the holistic service innovations funded, SIBs offer an opportunity to leverage cross-departmental funding to pay for the successful completion of social outcomes. However, the impact and effects of service interventions are often diffuse and not easily quantifiable. Very often it is difficult to attribute the prospective cost-savings across government departments. Whilst SIBs offer a vehicle through which to pool departmental funds in this area they nonetheless rely on systems of cross-departmental collaboration and administration to keep pace.

Another particular challenge facing SIBs is the current uncertainty and risk associated with this sort of contract model for financing social innovation. As previously stated, the relative value of SIBs is that they leverage private (social) investment to fund only those services that have had a pre-defined social impact or outcome. At least in theory, SIBs are supposed to transfer the risk of service innovation and performance onto private investors. 'However, these very market features have made SIBs unattractive to private investors without substantial guarantees' (Warner, 2013: 6). This perhaps comes some way to explain why, despite significant interest surrounding SIBs; the supply of private social investment has been relatively slow. Some of the social finance stakeholders interviewed for this study suggested that investors were concerned about losing money and that there was a lack of 'investment-ready' organisations that had a 'demonstrable track record of social impact':

> *'Big Society Capital coming online is a great opportunity for the sector in many ways but you need people to give that money to and you need organisations that are ready to take that money on' (social finance stakeholder)*

> *'The biggest challenge going forward is that we've been principally government funded… the biggest challenge is going to be bringing in different types of money from private sources' (social finance stakeholder)*

In light of the risk and uncertainty associated with SIBs as a contract model, a number of those interviewed stated that SIBs were only suitable for investors 'who can afford to lose' their investment. Essentially, SIBs are a financial instrument that is designed to sit within a broader market of social investment. If that market is under-developed or the financial instrument is not fit for purpose, this poses significant challenges for financing social innovation through SIBs. One potential mechanism by which it is possible to overcome the high uncertainty associated with SIBs is to compensate risk-taking with a higher rate of return for social outcomes achieved. However, some of those interviewed for this study doubted whether this could or would be justifiable in light of the high transaction costs already associated with SIBs. Some have suggested that the need to encourage private social investment has meant 'private investors in SIBs (to date) have required substantial loan guarantees or subordinated debt' (Warner, 2013: 6). Crucially, this raises an important question about the relative value of involving private investors rather than just drawing on direct 'investment' and funding from the public sector.

The high transaction costs associated with SIBs were also frequently cited as a concern and barrier to effectively financing social innovation. Some suggested these were a necessary feature of leveraging private social investment to fund service innovations. However, some also felt that these costs detracted from the relative value of the SIB compared to other more conventional commissioning mechanisms. In certain instances, a number of interviewees felt that a greater caseload of beneficiaries could be reached and assisted if the service interventions were directly commissioned through a public sector commissioner. These interviewees felt that the social outcomes achieved through SIBs had to significantly outstrip the impact achieved through conventional service interventions to justify the involvement of private investors and the 'extra costs' they incur.

> *'There is quite a cost attached to setting up an individual SIB. I think that's probably one of the biggest barriers to them being more widely deployed.' (senior policymaker)*

> *'If it wasn't for certain logistical difficulties, you would probably want to do it directly because it adds to the costs – very high transactions costs' (social finance stakeholder)*

Whilst some expressed concern about the costs and sustainability of SIBs, one interviewee felt that SIBs were inevitably 'expensive' in their nascent phase but this was not something to be concerned about in the long run:

> *'The way new financial instruments tend to work is that someone invents them. They're quite costly to build. They're quite costly to execute as a result in pure hard-nosed business. The margins are very high but then over a period of time they become more accepted and more people can create them, issue them, the margin goes down - the appeal goes up and they seep their way slowly into broader ownership.' (social finance stakeholder)*

The significant amount of public attention and investment in SIBs has occurred alongside substantial cuts to state funding for the voluntary and community sector. The National Council for Voluntary Organisations (NCVO) estimates that statutory income for civil society and third sector organisations fell by 9.4 per cent between 2010/11 and 2015/16 (Bhati and Heywood, 2013). According to more recent data, grants from government fell by two thirds between 2000 and 2013 (NCVO, 2015). This poses considerable challenges for the capacity of civil society organisations to realise their social mission (NCVO, 2015). In tandem, policy support and interest in social impact investment has grown substantially over the same period: 'at a time of tight public finances, Social Impact Bonds represent a new and innovative way of attracting investment from outside the public sector' (Big Lottery Fund, 2010). Whilst some view this as an opportunity, others view social investment as a tool 'of last resort' within the context of limited funding sources:

> *'In an ideal world we (charities and voluntary and community groups) wouldn't have to resort to social investment.' (third sector organisation)*

> *'I could mount an argument that the role of the state should be to use public expenditure to properly support [service beneficiary] as part of the welfare state. Given that we live in a country where the welfare state has withdrawn from that level of intervention, then social investment is an effective alternative.' (service provider)*

> *'The wider agenda is about the withdrawal of the state and the reduction of its responsibilities. If we were in a time with a government that was investing more in public spending no one would go to social investment.' (service provider)*

By and large, third sector organisations tended to view social investment as a necessary endeavour in light of cuts to public social services: 'this type of social investment is going to keep growing… as it provides a source of additional funding when public spending is constrained' (Ronicle et al., 2014: 35). Taking this into consideration, the extent to which SIBs can be characterised as an effective mechanism by which to finance social innovation largely depends on whether they are viewed within their narrower or broader context. To the extent that SIBs 'allow for the commissioning of services that would otherwise not be commissioned', they can be understood as financing social innovation. For example, a number of service providers felt that the principle innovation of the SIB was the length of the contract and the extended time it allowed practitioners to work with service beneficiaries (Nicholls and Tomkinson, 2015). The value of contractual longevity has also been highlighted by a number of stakeholders across evaluations of the SIB model (e.g. OPM, 2015). On the other hand, the capacity of SIBs to facilitate social innovation may well be inhibited by broader budgetary constraints on public social services and third sector organisations. In this sense, the SIB model may not in itself be a tool to finance social innovation but rather 'presents a vehicle to facilitate it' under the right conditions.

C.3.2 Building Public-Private Partnerships

According to the UK Cabinet Office, a SIB is a 'contractual arrangement between at least three separate parties, including a commissioner, an investor and a service provider, where payments are dependent on the achievement of specified social outcomes' (Cabinet Office, 2016b). Thus far, SIBs have had varying levels of success in building public-private partnerships and aligning the interests of these three sectoral stakeholders. Collaboration between the private, public and third sectors has been put towards a variety ends in trying to maximize the efficiency and effectiveness of service interventions. The hybridity criterion present within social innovation (Molina, 2010) means organisations and actors involved operate across 'over-lapping landscapes rather than distinct fields' (Alcock, 2009: 3). The claimed benefits of an effective partnership (or compact even) between the public and third sector have been well-rehearsed (Hopkins, 2010; Somers, 2013).

In addition to this, many have claimed SIBs present an opportunity to foster effective partnerships between a) the private sector and the public sector, and b) the private sector and the third sector. In both instances, it has been repeatedly claimed that the organisational culture, skills and expertise of the private sector can offer something of unique value to organisations and authorities operating within the public and third sectors (Social Finance, 2009; Deloitte, 2012; UK Cabinet Office, 2012). Despite claims that social investment has the capacity to socialise or temper some of the negative vagaries of market capitalism, public-private partnerships motivating and facilitated through SIBs have tended to focus on the virtues of the private sector and deficits of the public and third sector. Drawing on data from policy documentation and stakeholder interviews, this section critically considers the extent to which SIBs can be seen as an effective instrument through which to build public-private partnerships and whether this represents a challenge or opportunity for fostering social innovation.

As previously stated, the introduction of actors and capital from the private social investment market is intended to cover the up-front costs associated with welfare interventions and to transfer some of the risk of experimentation (and failure) away from public authorities (Cooper et al., 2013). To this end, the partnerships created through SIBs have the capacity to be mutually beneficial where all parties have a vested interest in the pre-defined outcomes being achieved. For the respective parties, this may result in a financial saving, a financial reward, a positive social impact, or a mixture thereof. Whilst this may constitute an alignment of interests, it may equally function to accommodate a plurality of interests and motivations around a common social outcome.

> *'Every stakeholder has their own objectives that they're using this to fulfil and they're very different and that's fine…' (SIB expert)*

It could therefore be argued that the SIB policy agenda is an effective instrument through which to foster public-private partnerships capable of fostering social innovation. However, it seems that an alignment of cross-sectoral interests is a necessary condition of a SIB rather than a product of its operation.

Partnerships between the public sector and the private social investment market

According to some of the public sector commissioners, policymakers and civil servants interviewed, the presence of private capital and actors in outcome-based commissioning is intended to encourage 'a more rigorous approach towards assessing and evaluating specific sets of interventions'. It was also seen as a way of adding 'discipline' to payment-by-results contracts to support public service reform. Where service interventions were seen as being particularly costly or ineffective at improving the outcomes of a target population, a number suggested that the role of private sector actors and methods had the capacity to improve the effectiveness and efficiency of service interventions.

> *'The potential for using commercial business approaches to improve the efficacy of projects and I think there is a role for bringing together some of those more commercial aspects to these projects and I think it does have the potential to deliver better results' (social finance stakeholder)*

In this respect, the public-private partnerships created through SIBs were seen to be beneficial because they introduced a 'profit motive' into the design and delivery of 'public services' and thereby fostered the capacity for social innovation. This was seen as a way of 'testing contract models' and 'securing value for money' for commissioners and taxpayers. Whether these perceptions hold true remains to be seen. Crucially though, it was widely recognised that public authorities and public sector finances were crucial to these partnerships:

> *'I think that private capital which has some element of profit motive, is on balance probably, with lots of caveats, going to be a better deliverer than the state sector but obviously it needs the state to put up some money because there's no profit to be made from just improving the outcomes of disenfranchised people' (social finance stakeholder)*

With regards to the economic underpinnings of social innovation, this latter observation is particularly important. Those social innovations that are principally designed to improve the outcomes of marginalised groups and whose principal operations centre on this objective, require some degree of charitable or public sector involvement and support. Without it, there are no sources of funding available because 'there's no profit to be made from *just* improving the outcomes of disenfranchised people'.

Beyond this, the introduction of actors from the social investment market is intended to transfer some of the burden of oversight and performance management away from the public sector. It has been said that SIBs have the capacity to dramatically alter 'the entire arrangement of responsibility and accountability between public and private entities for the provision of public services' (Cooper et al., 2013: 2). By drawing on new mechanisms of performance management, accounting and accountability, public sector commissioners are able 'to ensure that partners are on track to deliver the outcomes sought' without being directly responsible for the day-to-day oversight of the service (Goodall, 2014: 12).

> *'we have very little influence over what the delivery bodies are doing and how successful their sub-contractors are so in terms of that element I think that's down to investors and intermediaries and how they manage their delivery bodies' (public sector commissioner)*

Some of those interviewed were positive about the 'opportunity' for public authorities to delegate their role and relationship with service providers to an intermediary (Disley et al., 2011). Performance management undertaken by private sector actors and organisations was seen as an effective way of increasing the oversight and accountability of service interventions. On the other hand, some were less positive about the role of private sector involvement. These individuals felt that public sector commissioners lost too much control over the operation and evaluation of service provision and these partnerships were principally benefiting actors in the social investment market.

Some were also sceptical about the extent to which the involvement of private actors reduced the administrative and logistical burden on public sector commissioners. A number of stakeholders noted how ‘time-consuming’, ‘complicated’ and ‘demanding’ the development of SIBs could be. At least in the design phase, it appears that the time it takes to compose a SIB is a significant barrier to their wider appeal and take-up by public authorities. For many of the relevant stakeholders, SIBs were seen as placing significant administrative burden and pressure on public sector commissioners. These public authorities were not only required to assist in the development of an experimental contract model, they also needed to put measures in place to ensure they were sufficiently prepared to address strategic and practical issues concerning finance, cross-departmental co-ordination and legal challenges.

Despite claims that these public-private partnerships reduce the burden placed on public authorities in managing outcome-based commissioning, a number of interviewees felt that SIBs place an additional pressure on public authorities at a time of particular strain and budgetary constraint on statutory services. It may be more accurate to conclude then that SIBs *increase* the administrative burden on all parties involved with a view to ensuring the *effective* and *efficient* operation of outcome-based commissioning.

Partnerships between civil society and the private social investment market

In large part, the utility of the partnership between the private and public sector created through SIBs, depends on the nature and extent of the partnership between service delivery organisations and private sector actors. The partnership, or rather, working relationship created between actors across these two sectors has a number of intended and unintended effects on the capacity and service delivery of third sector organisations.

Perhaps the most commonplace argument advanced by advocates of SIBs is that ‘they promote innovation in social services and bring market forces to bear on service providers previously funded by traditional government grants’ (Cooper et al., 2013: 2). Underlying this belief is that third sector organisations delivering particular service interventions would benefit from a more ‘entrepreneurial’, ‘commercial’, ‘business-minded’ approach to their operations. This view was expressed particularly strongly by some of the social finance stakeholders interviewed for this study. Whilst, they recognised the social value and expertise of third sector organisations, many of these individuals suggested that third sector organisations lacked the skills, knowhow and strategic vision to safeguard their own sustainability and capacity of their operations. Some felt that a partnership between private and third sector actors would foster a necessary degree of corporatisation within the operation of civil society organisations. Ultimately, it was felt this would enable service providers to 'adapt their culture' and 'become more professional' and thereby encourage service innovation:

> *'They have to be able to talk to the private world and to investor minded fund providers and be able to cope with that and adapt their culture to that. The ultimate objective is to being able to keep on delivering those services to the poor or to underprivileged populations' (senior policymaker)*

In certain instances, this was justified on the basis of safeguarding the sustainability of third sector service providers in a changing funding and commissioning landscape (Bhati and Heywood, 2013; NCVO, 2015; NCVO, 2016). In other instances it was justified as an opportunity to increase the capacity and impact of civil society organisations.

> *'…all of the actors working in the social field have to change a little bit of their mind set otherwise they will simply die and no longer be able to offer a service because the public budgets are scarcer and scarcer' (senior civil servant)*

> *'What we're principally concerned with is making people more sustainable and by that I guess more professional… They're achieving the outcomes that they're set up to do but what we need to be able to help them to do is to go and speak the language of investment and have the right processes and procedures…' (social finance stakeholder)*

> *'The main driver was around thinking that the voluntary and community sector are often best placed to deliver the innovative and very localised services to whatever group you want to target and traditionally have suffered in perhaps not being able to take on the risk of payment by results. So this was a way of actually building their capability and capacity to ensuring that their upfront costs were covered by a range of one or more investors.' (senior civil servant)*

At least from the perspective of the social finance stakeholders interviewed, there appeared to be numerous improvements in the practices, capacity and impact of third sector providers. The partnerships created through the SIB were seen as instrumental in this process. Interestingly, the nature and tone of these partnerships differed quite dramatically from SIB to SIB. Some viewed this as a collaborative partnership whereas others saw it as more of a confrontational endeavour where the 'bending of wills' was deemed a necessary feature of the process of organisational learning and improvement.

> *I don't think that the project would have concluded as successfully were it not for the interventions of the sort of SIB-related stuff if that makes sense. I think that, in the end, the project was much better managed and that helped the delivery partner to deliver*

> *effectively to the [service beneficiary group] and therefore they got much better results. (social finance stakeholder)*

> *They [the service provider] feel like dealing with government employees. They're very very fixed in their ways. They've got a very long tradition and it makes them inflexible and very process driven and we're struck by it again and again and again… If we talk about innovation, [the service provider] will naturally be suspicious and resistant (social finance stakeholder)*

Contrary to the typical relationship between a third sector organisation and a public sector commissioner, a SIB requires service providers to principally engage with actors and organisations from the private social investment market. Third sector organisations interviewed for this study felt that there was a greater degree of oversight and accountability to their private sector partners and social investors. Requirements to report on social outcomes, rather than service inputs and outputs compelled these organisations to alter their data collection and data management processes. In turn, this appeared to produce a number of beneficial outcomes for the 'investment-readiness' of these organisations:

> *'collecting that data can be time consuming and can be difficult… But actually I think it's a challenge that the sector can rise to and I think the better the sector rises to it, the more it's just gonna reap more and more rewards because if you can show to somebody what impact you're having it makes investing in you or just supporting you a no brainer' (social finance stakeholder)*

In certain instances, the increased oversight and accountability was felt to have induced a behavioural and organisational change in how front-line practitioners assisted target beneficiaries and how 'back-office' staff sought to realise their social mission (DWP, 2014). Whilst some did not feel it had altered their organisational practice, some of the third sector stakeholders were positive about the frequency of oversight from investors and felt that their distance meant their criticism carried more weight and was thus more useful. In certain instances, it appears that the partnerships arising from SIBs helped improve the capacity and operation of third sector providers.

Through a series of pre-defined payment metrics, the SIB intends to open up space for service innovation and flexibility. Rather than fulfilling a range of service inputs and outputs, a SIB is designed to grant third sector providers the flexibility to provide tailored, intensive provision according to the requirements of the beneficiary rather than the requirements of the contract (Disley et al., 2015). However, in practice some of the social investors required data, information and updates on much more than the pre-defined payment metrics. In certain instances, third sector providers were required to collect substantial amounts of information on what was working, under what conditions and by what means. Whilst intended to foster dynamic and responsive service provision, this actually created a significant data, administrative and organisational burden for some service providers. On occasion, it was felt that the SIB actually inhibited their discretion and capacity to realise their social mission. Some felt that the burdensome nature of oversight and micro-management was diverting resources that could be better spent on broadening and intensifying service provision.

> *We underestimated the amount of management time that was required to run a SIB and we radically under-estimated the kind of information demand from investors there would be on a daily basis about how things were going and what conversion rates were and progress reports and forecasts and re-forecasts… (third sector stakeholder)*

> *No absolutely not. If anything I would say less there was less flexibility. Because the amount of management structures that are placed on a SIB mean that you have less manoeuvrability, you have to clear everything with this board to get permission to do anything. The board has investors and they very rarely see the world in the same light as you. (third sector stakeholder)*

> *It isn't the commissioner that's requiring the burdensome and time intensive reporting – it's the investors really – it's like nothing we've ever experienced before (third sector stakeholder)*

As a result, a number of third sector organisations talked quite negatively about the degree of micro-management that came with the SIB, and particularly their interaction with social investors. In a number of instances, a difference was noted between the different types of social investors. Organisations principally involved in grant-making activities tended to have a much more collaborative relationship with the service provider. By contrast, some social investment organisations and individual investors were perceived as not trusting service providers and having 'little understanding of what we do and why we do it'. On a number of occasions, social finance stakeholders exhibited a lack of awareness and understanding of the factors that inhibited or slowed the take-up or impact of service provision. This is perhaps explained by a number of the social finance stakeholders interpreting the role of the intermediary and the contract in purely legalistic and financial terms.

> *The social investors who saw themselves as being more commercial, interpreted everything from a legal perspective. So they wanted to go to the contract all the time. (social finance stakeholder)*

> *The chairman is charged with ensuring that the board is fit for purpose and operates well and that it achieves the outcomes that it sets itself (social finance stakeholder)*

On a number of occasions, third sector organisations felt it necessary to 'insulate' their front-line practitioners from the external pressure exerted by social investors. In this regard, through the imposition of marketised principles and practices, there was some potential to foster outcome-based service interventions. However, on occasion, social investors also risked the promotion of malpractice such as ‘creaming’ and ‘parking’. Some organisations responded by seeking to safeguard the professional practice and integrity of their services.

> *I think you’ve got to be careful you don’t contaminate your professional practice by erm... I have to fend off the investors and have the financially focused discussion… otherwise you start to get into some quite questionable practices and run the risk of people starting to do things because of financial pressures… The whole reason for doing this is to help the hardest to reach [target beneficiary group] and to help them make a or realise an outcome so we tend to be the firewall around investor pressure around quick return and professional practice of our staff and I don’t think we had any inkling about how fine a line it would be to secure and operate like that but I think we’ve done it successfully. (service provider)*

In these instances, tensions arose between service providers and social investors. Whilst these tensions were accommodated and managed, the lack of understanding and awareness exhibited by social investors discouraged service providers from engaging in similar contracts in the future:

> *We wouldn’t engage in those sorts of contracts or with those investors in future. We would engage in future SIBs, we are developing a new one in [location]. We want to ensure that future social investment contains a much stronger partnership between the parties, and less an element of private sector contracting which can be bullying. (service provider)*

These experiences belie the collaborative ideal and transformative potential of a partnership between certain third sector service providers and actors from the social investment market. On some level, SIBs as a contract model seek to embed an entrepreneurial and innovative approach to the operations and service delivery of third sector organisations. However, one individual went as far as to suggest that ‘there aren’t any lessons being learnt’ within their own organisation. They were ‘walking the walk and talking the talk’ but ultimately were doing what they knew was best for their client group. Another third sector stakeholder felt that there should be ‘less micromanagement, more partnership, more trust’ from social investors.

Overall, cross-sectoral partnerships have the capacity to encourage ‘discipline’ and ‘rigour’ in the measurement, commissioning and evaluation of public services. In addition, they have the capacity to increase the flexibility, responsiveness and autonomy of service providers. In certain cases, these benefits were observable. However, in other instances, the pressures exerted by social investors threatened the autonomy and integrity of service provision so that practitioners were not able to capitalise on their own expertise and skills. It seems then that SIBs and the increased exposure to social investment market forces has the capacity to both foster and stifle social innovation.

C.3.3 Building effective networks to support social innovation

SIBs and their successful operation rely on a series of networks to co-ordinate cross-sectoral finance and skills towards a pre-defined social outcome. This section examines the extent to which SIBs, as a policy instrument, have the capacity to facilitate and foster networks for social innovation. More specifically, this section considers what features of the SIB model support the development of effective networks and what bearing this has on the character and extent of social innovation.

SIBs are financed on the assumption that holistic and preventative service interventions will, in due course, lead to cost-savings for the public sector (Mulgan et al., 2010). As previously stated, the projected savings and effects of interventions are often diffuse and may well fall across a number of departments within and across different public authorities. With this in mind, SIBs both demand and encourage networks of cross-departmental collaboration. As one interviewee noted '… a lot of the time the fiscal savings are attributable to other government departments and areas so ideally they would act as co-commissioners'. As co-commissioners, public authorities have the capacity to create networks of action that transcend the existing parameters of public service administration. Indeed, this is repeatedly cited as a key source of public service reform and a necessary characteristic of public sector innovation (HM Government, 2011):

> *'co-commissioning is certainly a key source of the innovation' (policymaker)*

In terms of public sector commissioning, SIBs represent a number of challenges for public authorities. The legal and accounting mechanisms by which contracts and cost-savings are conceived and the evaluation of service provision requires effective networks of communication and collaboration between governmental departments. On a number of occasions, public sector commissioners found that:

> *'it is really hard to get people to get past their fiefdoms and get them to see the bigger picture…' (public sector commissioner)*

In certain instances, overcoming 'territorial attitudes' and approaches within and across public authorities appeared to have been a key challenge for the development and operation of SIBs. Several interviewees pointed to an institutional culture within local public authorities that inhibited the development of networks to share knowledge and further the development of SIB contracts. In particular, they highlighted a culture of secrecy and competition, which inhibited information sharing. Despite initiatives and funding from central government, a number of interviewees felt that this, coupled with the administrative burden of SIBs, had inhibited their wider take-up across public authorities. Going forward, some were more optimistic about the prospects of SIBs in the longer term.

> *'The inefficiency of this and the layers of management is just huge but as time goes on – that management will be needed less and less and to the extent that there is management - it can be spread over a greater network of actors.' (social finance stakeholder)*

In this regard, it is not entirely clear whether SIBs rely on effective networks of social innovation or whether SIBs foster effective networks for social innovation. It is possible, that both interpretations are valid. However, it remains to be seen whether some of the newly formed networks arising from SIBs will facilitate any institutional learning or an enduring effect on public service administration and social innovation.

In addition to the systems of action and change emerging across public authorities, SIBs support the creation of networks that extend well beyond the public sector. On a number of occasions, the establishment and operation of SIBs appeared to foster operational networks that transcend sectoral boundaries. For some interviewees, SIBs had lead to the creation of working relationships and networks that would not otherwise have come about. Through this sort of cross-agency co-ordination, these individuals were able to develop innovative solutions to shared challenges and organisational problems. For one service provider, they were able to initiate a working relationship with a key strategic partner as a result of the SIB. Based on this, the service provider went on to consolidate its relationship with this organisation and thereby extend and enhance its operational activities (Thames Reach, 2015: 4). The novelty and value of these networks appeared to reside in their hybrid character where third sector providers were able to capitalise on the skills, finance or expertise available in other sectors.

For many of the SIBs, their establishment greatly depended on leveraging existing contacts and networks of support. This was particularly the case for drawing together a syndicate of social investors, or for identifying a group of ancillary organisations to assist third sector service providers fulfil the terms of their SIB contract. Local stakeholder involvement and collaboration was a particularly important factor in fostering a degree of service innovation. Depending on the context, this was both a product and condition of the social innovation. Whilst many exploited existing networks, others were able to develop and consolidate new networks of actions to realise their social mission.

> *'SIBs have definitely consolidated that relationship we have with schools and other stakeholders.' (third sector organisation)*

Some of the public sector commissioners and policymakers interviewed were keen to emphasize the importance of local stakeholder involvement. In addition to this, a number of interviewees stated that local stakeholder investment was a key source of and opportunity for social innovation and public service modernization.

Social investment has been repeatedly framed as an activity that has a social and economic return. At the very least, this means there is a financial return for the investor and a social return for the investee. However, there are varying degrees to which investors can also benefit from a social return. Where an individual or organisation is fulfilling their specified social mission by investing in an organisation or activity, it could be argued that this represents a genuine blend of social and economic return for both the investor and investee. Beyond the basic premise of 'doing good' or 'making a change', this represents a genuine alignment of specified interests and values shared by the investor and the investee. Where such alignment occurs, this may foster effective networks for social innovation. Local stakeholder investment in SIBs is one such example of this. Thus far, there are a number of examples of local stakeholder organisations co-investing in SIBs. In these instances, public sector and third sector agencies are able to pool their resources in a sustainable manner that disrupts existing power relations and meets social need in innovative ways.

> *'But that's healthy in terms of sharing interest and commitment to the programme so local authorities sort of stood at the side of these programmes first time round but are now actively involved as co-investors' (third sector organisation)*

Local stakeholder organisations that did decide to co-invest greatly depended on the expertise and oversight of national social investment organisations who were much more familiar with the SIB contract model. In large part, these local stakeholders deferred to national social investors to undertake the necessary due process and diligence comprised in the development of a SIB. This proved crucial to their buy-in and involvement.

Perhaps at the most extreme end of a social investment with social and economic returns, a third sector service provider may elect to become a co-investor in a SIB. In this scenario, a co-investing service provider is paid up-front for the delivery of a service but is also paid a dividend based on the social outcomes it achieves. In many respects, this represents a typical payment-by-results contract but has the capacity to significantly alter the way in which third sector organisations go about achieving and measuring the impact of their social mission. If done successfully, it may enhance the capacity of third sector organisations; allowing them the freedom to engage in more innovative and experimental forms of service provision. On the other hand, if social outcome are not achieved, it may expose the service provider to significant financial risk. For one of the SIBs under consideration, the service provider elected to co-invest and found this a broadly positive experience for their operations.

Across the SIBs examined here, the national intermediary and social investment organisations played a pivotal role in establishing and maintaining networks of action and innovation. As outlined above, there are a number of beneficial outcomes to the establishment of these networks. However these networks did tend to be orchestrated and managed by those with vested interest in the SIB model succeeding. This makes it particularly difficult to establish the role networks play and whether they facilitate a continuation, exploitation or disruption of existing power relations.

C.4 Tackling Marginalisation?

Thus far, a great deal of attention has been paid to the ways in which SIBs affect the processes and organizational practices that have a bearing on the capacity for social innovation. This section examines the extent to which SIBs, as a policy instrument, effectively support social innovation that is capable of addressing social inclusion for marginalized and vulnerable populations. Arguably, the central consideration that determines whether a SIB is considered suitable is its capacity to produce *improved* social outcomes compared to the outcomes achieved through other service interventions. Ultimately, such evidenced effects are necessary to justify the extra costs, time and effort associated with SIBs to establish whether they are financially viable and sustainable as an economic model for social innovation. In this sense, the 'litmus test' for a SIB is whether it improves the social outcomes for target populations that have, too often, been subject to policy failure.

Despite the number and range of SIBs currently in operation, there is still relatively little systematic or methodologically rigorous evidence that is publicly available. As a result, the claimed or perceived potential of SIBs is largely speculative at this stage (Ronicle et al., 2014). Even for the first Peterborough SIB established in 2010, the final impact evaluation is yet to be released. The latest data available for this particular SIB suggests that the service intervention has successfully reduced reoffending by 8.4 per cent so far (Jolliffe and Hedderman, 2015):

> *'While this was below the 10% target required to trigger an early outcome payment for the first cohort, it is above the 7.5% target required for an outcome payment for the final combined cohort, though this will depend upon the outcome of Cohort 2.'* (Disley et al., 2015: 14)

Without doubt, the SIB has achieved a great deal of positive impact for service users and enabled service learning, innovation, flexibility and outcome-focused provision (Disley et al., 2011; Disley and Rubin, 2014). However, whether this will be reflected in the outcomes achieved to trigger a payment remains to be seen.

A number of qualitative evaluations of SIBs have been undertaken and there is anecdotal evidence to suggest that social outcomes are being achieved. However, there is comparatively little evidence on whether SIB services are performing any better than conventional service interventions. Where evidence is available, it is rather mixed. For example, a survey found that just over half of commissioners and just over a third of service providers felt that the 'SIB they were involved in was leading to a greater level of impact with beneficiaries than would otherwise have been achieved' (Ronicle et al., 2014: vii).

To establish whether SIBs are performing comparatively better, it is necessary to refer to the comparative baselines and thresholds that dictate the extent and level of payment received by social investors. For the three SIBs under detailed consideration for this research, the payment metrics and comparative baselines are outlined in Table C.2 below:

Table C.2: SIB Social Outcome Metrics

	Outcome Payment Metric(s)	**Comparison Group**
Essex: Children on the Edge of Care	Total days adolescents from a treated cohort spend in residential care, measured over 30-day time periods.	Baseline historical comparison group.
Merseyside: New Horizons	For Years 10 and 11: • Improved behavior at school (£800) • Stop persistent truancy (£1,300) • Achievement of NVQ level 1 (£700) • Achievement of NVQ level 2 (£2,200)	Counterfactual group established using a matched area comparison design.
London: Rough Sleepers	• 12 months accommodation (£7,000) • 18 months accommodation (£3,000) • Initial reconnection (move to another country) (£800) • 6 months reconnection (£6,100) • Achievement of NQF level 2 equivalent qualification (£400) • Volunteering/self-employment 13 weeks (£200), 26 weeks (£600) • Part-time employment 13 weeks (£500), 26 weeks (£1,500) • Full-time employment 13 weeks (£1,300), 26 weeks (£4,000) • Payment per individual above given baseline not seen rough sleeping in given quarter (£3,800 for first four quarters and £2,400 thereafter) • Payment per accident and emergency service use avoided beyond baseline per year (£100) Initial accommodation (£700)	Comparative baselines on a historical virtual cohort for rough sleeping and A&E usage. Other metrics do not use a baseline but evidence needs to be provided for payments.

Reviewing the available quantitative and qualitative evidence, there is some uncertainty as to whether SIBs are producing the social outcomes they set out to. We now turn to consider each of three SIBs in turn.

As of yet, there is no detailed information on whether the Essex SIB is proving effective. At the time of writing, the most recent evaluations of the service suggested that it was exceeding the majority of its targets and that the Essex MST service was performing at a rate above the national average (OPM, 2015). However, it is hard to disassociate the relative impact of the SIB model from the Multi-Systemic Therapy (MST) introduced as part of the Essex Children Support Services Programme (Social Finance, 2014). In its own right, MST is a relatively innovative service intervention for Essex County Council and the comparison of its effect against a historical baseline proves problematic. In addition, the programme of children support services was restructured at the same time the Essex SIB was established. As a result, it is hard to identify and attribute the cause of any improvement, or indeed deterioration, to the SIB model. As many have noted, the benefits and risks of SIBs have to be considered within a broader system of service provision and socio-structural change. At best, the Essex SIB could be seen as helping improve the outcomes of the service beneficiaries 'indirectly' (OPM, 2015).

The New Horizons SIB is part of the Innovation Fund pilot programme commissioned by the Department for Work and Pensions. The objectives of the Innovation Fund are to grow the social investment market and support young people who are disadvantaged, or at risk of disadvantage, by helping them succeed in education or training and thereby improve their employability and reducing their long-term 'dependency on benefits'.

> *'Ian Duncan Smith [Minister for DWP at the time of fieldwork] was interested in exploring SIBs as a way of supporting some of our most disadvantaged groups in society.' (senior policymaker)*

Quarterly published statistics confirm that, through the New Horizons SIB, at least 4,700 positive outcomes have been achieved (DWP, 2016). Whilst it is not possible to establish whether the service intervention has or will prevent beneficiaries from becoming NEETs, an interim qualitative evaluation found that 'virtually all young people interviewed were positive about the project interventions they were participating in' (DWP, 2014: 28). A number of reports have suggested that the New Horizons programme has far exceeded targets and expectations set for itself. For example, 24 per cent of beneficiaries achieved 5 A*-C GCSEs against a target of 5 per cent (BSC, 2013). In addition the New Horizons SIB significantly exceeded its initial targets on improved attendance and behaviour in school, as well as attainment of NVQ Level 1 (Social Finance, 2016: 29). This confirms that, in many respects, the SIB is achieving the intended social outcomes. Whether this translates into a reduction in the rate of NEETs in the Merseyside area remains to be seen. Difficulty in producing outcomes for those beneficiaries already classified as NEETs suggests service interventions may not always prove successful in this regard. However, despite the lack of any official data, information available suggests there is generally a positive view of progress achieved through the Innovation Fund pilots (Ronicle et al., 2014).

Overall, performance of the London Homelessness SIB has been mixed. Whilst the final evaluation is yet to be released, the latest available data suggests that service interventions have struggled to fulfil particular targets (DCLG, 2015). Performance has improved over the course of the SIB but the service intervention has consistently underperformed in a number of other areas (Ronicle et al., 2014). For example, rough sleeping was not reduced below the modelled baseline and both service providers have struggled to meet their initial and sustained reconnection targets. By contrast, it appears service providers have exceeded their targets for securing stable accommodation and its sustainment. It is important to note that 'providers were pleased with their achievement of this outcome, which accounts for 40% of the available payments' (DCLG, 2015: 32). This is particularly significant as this ensured the financial viability of the London Homelessness SIB - particularly for Thames Reach as a co-investor. In addition, the service exceeded its targets on sustainment of full-time employment but did not achieve targets on attainment of qualifications, volunteering or part-time work.

As noted by the evaluations and stakeholders involved in the establishment of the SIB, service providers were working with a target population with highly complex needs and challenges (DCLG, 2014; Ronicle et al., 2014; DCLG, 2015). In this instance, it appears the SIB model was neither successful in producing a number of its desired social outcomes nor in improving outcomes compared to a comparable baseline. On the only *comparable* baseline (rough sleeping), the London Homeless SIB did not meet its target. Whilst there is no doubt the SIB has produced positive social outcomes for many service users (DCLG, 2014: 93), there is no evidence to suggest that this works any more effectively or efficiently than other services. In key documentation, both service providers affirm the value and difference that the SIB model offers. However, whilst the SIB model facilitated the opportunity to work with clients in a different way (St Mungo's Broadway, 2015; Thames Reach, 2015), it does not appear to have led to improved social outcomes when compared to other services.

Overall, consideration of the Peterborough case and the three SIBs discussed above suggests there is, at present, little definitive evidence that SIBs successfully tackle marginalisation.

> *'I have mixed opinions about SIBs if I'm honest… I wanna pay for stuff that makes a difference so on that hand I think SIBs have got a lot of potential. The difficulty though with SIBs is that I don't think they can apply to everything and they need to be set up right because the risk is that you don't want them to be set up in such a way that the outcomes don't get paid for - or worse - the outcomes don't actually get achieved. What is being paid for is success but it needs to be that.' (social finance stakeholder)*

Of course, this is not to say that, SIBs, as a policy instrument do not have the capacity to effectively achieve pre-defined social outcomes. For example, the Merseyside SIB has successfully met and exceeded some of its key outcome targets. However, overall, it seems that there are a number of challenges that arise in seeking to establish the impact and effect of SIBs on fostering social innovation capable of tackling marginalisation.

Despite attempts to create and measure against a comparable counterfactual, the shifting social and policy landscape within any setting makes a systematic evaluation of impact methodologically challenging. For example, it is hard to establish the specific impact of the London Homelessness SIB in light of housing benefit and welfare reforms implemented over the course of the service intervention. An evaluation of the SIB acknowledges how such changes inhibited and assisted the attainment of pre-defined social outcomes (DCLG, 2015). Within such a context, articulating and ascribing the cause of a SIBs 'success' or 'failure' can be highly problematic (cf. McHugh et al., 2013). This is due, in large part, to the focus on siloed inputs and outcomes that acknowledge little relation to the broader setting within which SIBs operate. On a number of occasions, service providers and practitioners pointed to factors that might obscure the impact of service interventions on marginalisation. In certain instances, the broader policy context may actually serve to over-exaggerate the relative value of social innovation policy instruments such as SIBs:

> *'A slightly perverse response I know but the amount of disinvestment through local authorities has really helped us. There used to be funding routes that many of these [service beneficiaries] could of accessed and programmes they could of used and due to the kind of austerity cost-cutting they are just not there anymore so there are swathes of [service beneficiaries] who have been abandoned by some of the national policy decisions so that's really helped this programme in that the eligible cohort is huge and the need is bigger than ever so there was never any scarcity of participants… perversely cuts have made this programme more popular and more necessary and more likely to succeed I think.' (service provider)*

Arguably, not enough attention is paid to the substantial implications this has for making *tempered* conclusions about how SIBs affect marginalisation and the long-term opportunities and outcomes for marginalised and vulnerable populations.

Rather than a static condition, marginalisation is essentially a social process 'through which personal, social or environmental traits are transformed into actual or potential factors of disadvantage' (Chiappero-Martinetti and von Jacobi, 2014). If a social outcome is achieved through a SIB, there is an assumption about the permanency of its effect. In reality, service beneficiaries are subject to dynamic conditions within and beyond the SIB intervention. This raises an important question about the legacy of SIBs and the extent to which it is reasonable to assume their lasting effect on marginalisation, particularly with regard to payment metrics constructed on the basis of prospective future savings to the public sector.

In consideration of the three SIBs, it is clear that tailored and intensive support received by many service beneficiaries greatly improved their immediate situation and opportunities. Based on interviews with a number of service users, service interventions were clearly transformative to their current and future prospects. Intense and tailored support helped service beneficiaries identify and realize their goals within particular settings:

> *'Through the SIB and all that I ended up getting some volunteering and a part-time job in a hostel for about 6 months. It's given me the confidence to go further than what I, er, have done in the past.' (service user)*

> *'If it weren't for [practitioner name], I wouldn't be here. And that's actually the truth… If I wouldn't have worked with him I wouldn't be here now. Everyone I knew thought that I probably wouldn't make it until the end of the year and I surprised myself how long I've lasted.' (service user)*

> *'I'd say it's helped quite a bit in terms of helping me get to where I want to be. I'm not there yet but I will be. If they didn't help me I suppose I'd still be homeless.' (service user)*

> *'Helping me get my grades because otherwise I wouldn't have been getting my grades or nothing. Because I'm achieving my goals, my B's and C's.' (service users)*

Service interventions helped equip beneficiaries with the resources and skills they needed to overcome factors that contribute towards their marginalisation. In doing so, these interventions helped tackle 'actual or potential factors of disadvantage' for many beneficiaries:

> *'I feel more positive now because I'm learning more – I'm getting the work done what I've got to and I know where to aim and what grades to hit.' (service user)*

> *'It's given me opportunities plus money in my own pocket, which means I don't gotta rely on the government supporting me. That's important to me because it gives me a sense of self worth and it means that I'm contributing.' (service user)*

> *'It's given me confidence to keep my accommodation and pay my rent.' (service user)*

Very often the intensity and regularity of support proved particularly important to securing social outcomes. Without this kind of support, a number of service users felt that they would not have been able to overcome the challenges they faced. The holistic assessment and sensitive treatment of a beneficiaries' situation was considered especially important:

> *'I was being excluded all the time and being naughty and all that and it come to the point where [practitioner name] came to see me near enough every other day in Maccy's or something.' (service user)*

> *'[Practitioner name] filled out loads of forms for me to go to the housing team which I'm not sure how that works but… and just took it from there… he took me through the*

> *different panels who assess me. He did all the paperwork for that – if he hadn't of done that I'd probably still be in the hostel now. They were constantly on the phone with me and I needed that - just that little bit of guidance… you know more hands on - just to get me in the door sort of thing.' (service user)*

Undoubtedly, these services were of immense value to beneficiaries. However, through the course of interviews it became clear that the highly complex needs of beneficiaries threatened the sustainment of particular outcomes. As a result, a number of beneficiaries felt that there needed to be 'more of a transition period' between the intense support they received through the SIB and their subsequent 'independence'. Following receipt of services through the SIB, one beneficiary felt that they lacked the resources and information to operate independently and effectively. They attributed their recent drug abuse and social isolation to feeling somewhat 'abandoned' after outcomes had been achieved:

> *I'm surprised the way its just been ended so suddenly - it's meant I'm not doing so well now. (service user)*

> *I'm struggling at the moment… I've moved so far away from everybody that hasn't helped and its something I've got to sort out. I've relapsed and I'm hoping its not permanent. (service user)*

This points to the fact that SIBs have the capacity to effectively tackle marginalisation, but only if they exist alongside continued service infrastructure and support systems made available to beneficiaries. As already stated, beneficiaries were overwhelmingly positive about service interventions. However, there still remained great concerns regarding their future prospects and opportunities. For example, many of the young people receiving support through the Merseyside New Horizons SIB felt that the service had helped improve their educational attainment but were worried about their employment prospects and living arrangements in the future. Despite significant help, these individuals were still confronted with broader structural factors such as localized unemployment and disadvantage. With this in mind, SIBs effectively tackle certain 'factors of disadvantage', but they also need to feature as part of a broader policy agenda committed to addressing the structuration processes through which marginalisation and vulnerability arise.

D Social Co-operatives in Hungary

This section outlines the origins, operation and effects of public policies designed to support the development of social co-operatives in the Hungarian context. Through such an undertaking, it is possible to examine the extent to which Hungarian social co-operative policy represents a risk or opportunity for social innovation capable of improving the human capabilities of some of the most marginalised people in Hungary. At present, the concept and phenomenon of social innovation is rarely explicitly drawn upon or delineated from the broader social economy in Hungarian public policy (Ruskai and Mike, 2012). To consider how social innovation is understood and applied from a 'transition economy' perspective, this section offers the occasion to compare Hungary with other domestic contexts where social innovation has either been more clearly defined in public policy agendas, or at least more regularly drawn upon as a policy concept to frame, justify and design measures that seek to tackle societal challenges facing the private, public and third sectors.

Positioning social co-operatives within their broader historical context, this section examines the legislative and administrative decision-making that has sought to support their development.

D.1 Origins of social co-operatives in Hungary

Whilst social innovation is a relatively obscure and emergent policy concept in Hungary, the history of co-operatives is more firmly established and extends much further back in Hungarian public policy. For example, Hungarian co-operatives have been formally recognised and operational since the 19th Century. Whilst these organisations do not have explicit social aims, a number of positive benefits are potentially accrued through their decision-making structure and activities. Prior to being subsumed under state control in the planned economy era, there was a range of autonomous agricultural, home-building, collective purchasing and credit co-operatives. Today, co-operatives are the most substantial feature of the Hungarian social economy with an estimate of somewhere between 3,000 and 4,700 currently registered (Vincze et al., 2014: 12; NAoSCo, 2016).

It should be noted therefore that co-operatives, along with policy instruments designed to support them, have developed somewhat independently of the incipient policy interest in social innovation. On the one hand, this presents a challenge for evaluating the capacity of Hungarian social co-operative policy to instigate social innovation capable of tackling marginalisation. Essentially, this entails the appraisal of a policy instrument against a threshold or objective for which it was not explicitly intended. However, on the other hand, the development and growth of social co-operatives can also be seen as intimately linked to, and contributing towards, the means and ends of social innovation. Arguably, social innovation is the overarching or underpinning motivation, whether articulated or not, that has driven the development of social co-operatives. It is therefore appropriate to consider how Hungarian public policies, through such a mechanism, may foster or inhibit social innovation.

Similarly to the majority of other EU member states, there are no public bodies that are dedicated to fostering social innovation in Hungary (Ruskai and Mike, 2012). Along with ambiguities inherent in the terms and concept of social enterprise and social economy, there are no publicly agreed or declared definitions of social innovation. Having said that, there are a range of domestic and EU policy programmes and instruments supporting social innovation that specify appropriate organisational structures, operations and outcomes to address the social inclusion of marginalised groups (Vincze et al., 2014). Overall, social innovation is promoted in the following ways: supporting organisations and entities to engage in work integration activities; supporting social finance, impact investment and (non-social) micro-finance for enterprises and social purpose organisations; and supporting activities that cohere with EU structural investment and regional development fund strategies (Edmiston, 2015a).

From the late 1980s onwards, there has been an emerging interest in the Hungarian 'social economy' and its capacity to address societal challenges through alternative means of production, consumption and need provision. In an attempt to move away from the centralised planned economy that characterised the post-WWII era, there was significant political, economic and social upheaval. In the transition towards a democratic civil society and market economy, public bodies sought to support a greater plurality of actors and organisations in the social market economy. This included the establishment of the Civil Code in 1987, which defined the legal status of foundations, and the introduction of a new law on the 'public benefit' status of non-profit organisations in 1997. Alongside other measures, this lead to an increasing prominence and role of social purpose and non-profit organisations in Hungarian civil society (Simko and Tarjanyi, 2011). In many cases, the dismantling of the planned economy, and the uncertain role of the state in social services, left significant gaps in need provision that further necessitated the need for third sector activities to deliver social assistance and welfare services.

The Ministry for National Economy and the Ministry of Home Affairs (Interior) are the two key government bodies involved in designing or implementing policies that have some bearing on the capacity of organisations and actors to foster social innovation. In spite of this, there have been significant obstacles facing the capacity and autonomy of the social economy sector in Hungary. The first principle challenge is the lack of financial independence from governmental funding with many social purpose organisations heavily reliant of grants, subsidies and external funding from the public sector (Horváth, 2010). The second challenge is the regulatory framework through which social economy organisations are able to receive public support. For example, the existing regulation of social enterprise entities is largely governed through the legislation surrounding social and welfare services. Whilst there is no comprehensive national or strategic framework that guides the development of the social economy, it tends to be supported in ways that reproduce a somewhat top-down, state-centric approach to social innovation and the broader social economy.

The New Széchenyi Plan (New Hungary Development Plan) launched in 2011 has, *inter alia*, committed to decentralising social service provision and thereby increasing the autonomy and self-sufficiency of social economy organisations. This policy priority principally entails increasing the financial sustainability of the social economy sector by aiming to encourage a more entrepreneurial, competitive and business-minded approaches to better underpin their social objectives and activities. In many respects, regulations supporting the development and capacity of social co-operatives are an integral feature of this policy programme within Hungary.

Through the passing of Law X., social co-operatives first became officially recognised as a legal organisational form in 2006. The legal status of these 'old type' social co-operatives stipulated that they must be involved in creating 'employment opportunities and facilitate by other means the improvement of other social needs of its disadvantaged members'. These organisations were recognised as having particular community-interest and public and social utility, which granted them tax exemptions and entitled them to tax-deductible donations. At least within policy and political discourse, social co-operatives have been conceived as a key instrument to tackle high levels of structural unemployment across Hungarian regions. In this respect, the regulatory frameworks and public support directed towards social co-operatives can be understood as perhaps the most salient social innovation policy agenda that seeks to address the social and economic integration of marginalised and vulnerable groups. Alongside this, the National Alliance of Social Co-operatives was established in 2010 to provide support, advice and advocacy for the effective development of the social co-operative landscape:

> *SzoSzöv* [National Alliance of Social Co-operatives] *encourages the creation of independent and sustainable communities focusing on solidarity, and it promotes their operation according to its principles. It stands for the Social Co-Operations, aids their rational economic decisions, and their building a cooperative network. Furthermore it helps them to become a positive force in society strengthening solidarity.* (NAoSCo, 2016: n.p.)

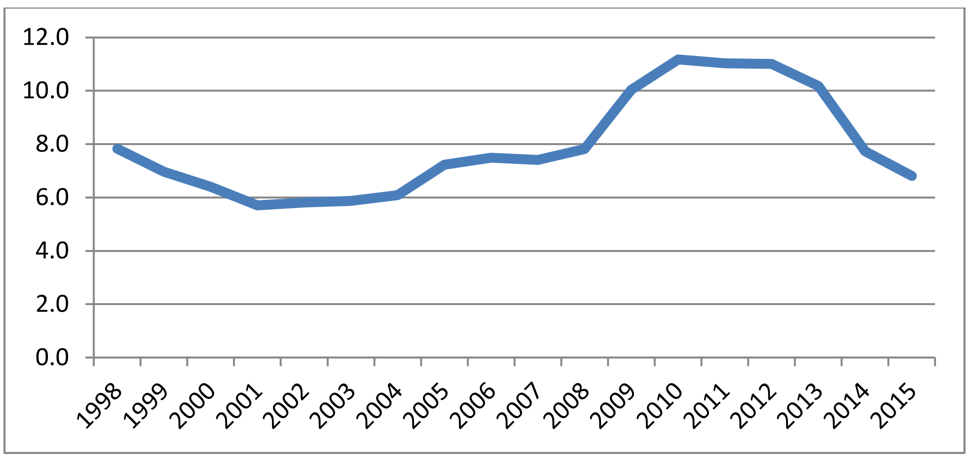
Initially, the 2006 legislation embedded a high degree of democratic governance in the organisational structure of co-operatives by enforcing the one member, one vote principle. From this, there emerged a number school co-operatives and one employment co-operative. The former focused on securing employment opportunities for its student members, whilst the latter, introduced in 2012, could be established by ‘at least 500 natural persons and/or a national ethnic minorities’ organisation’ (Vincze et al., 2014: 10). Whilst there is no minimum amount of capital required to register a social co-operative, there must be at least 7 members for one to be established in Hungary.

The introduction of ‘new type’ social co-operatives still centres on activation measures for disadvantaged members and/or the improvement of their socio-economic situation. However, through ‘new type’ social co-operatives, it is now possible for local government authorities and agencies to become members. In addition, individuals not directly contributing towards operational activities are allowed to join, and at least two members of ‘new type’ social co-operatives must be former employees of a public works scheme. These newly introduced specifications present a number of opportunities and risks for social co-operatives and their capacity to foster social innovation. Firstly, it has made it possible for local municipalities to lease various assets and resources (from public works) to ‘new type’ social co-operative in fulfilment of their operational and social objectives. Secondly, they also present an opportunity and mechanism through which to, ‘exit’ public works programmes, and reduce the significant degree of reliance on this as a solution to structural unemployment and regional economic development. Thirdly, allowing local municipalities to become members has the potential to undermine the democratic decision-making principles and autonomy of ‘new type’ social co-operatives (Vincze et al., 2014).

These legislative changes have also occurred alongside other domestic (tax concessions, favourable employment regulations and grant-making) and EU measures (co-financing through European Structural and Investment Funds) to support the establishment and operation of ‘new type’ social co-operatives. Whilst domestic policy tools have proven more *ad hoc* and piecemeal, EU support features as part of a broader commitment to create employment and tackle long-term unemployment for disadvantaged individuals and regions across Europe (European Commission, 2015). That is not to say that domestic policy has not proven highly impactful (if only temporary, and at times adverse) on the social economy and on measures to foster alternative job and employment creation. Indeed, this was partially the basis upon which the National Employment Foundation (OFA) was established in 2005.

In the early 2000s, the Hungarian unemployment rate experienced a relative recovery following the democratic and economic transition since 1989. However, leading up to and following the global economic recession, the unemployment rate increased significantly in Hungary. In 2001, 5.7 per cent of the Hungarian population was classified as unemployed. This rose marginally to 7.4 per cent in 2007 and increased significantly to 11.2 per cent in 2010 (HCSO, 2016). At this peak, there was substantial regional variation with 16.2 per cent unemployed in Northern Hungary (18.3 per cent in Nógrád) and 14.4 per cent unemployed in the Northern Great Plain including more remote, rural regions such Szabolcs-Szatmár-Bereg (18.1 per cent) (HCSO, 2016). Since then, the official unemployment rate has fallen significantly, to 6.8 per cent in 2015. Despite this ostensible progress, there is still remain considerable levels of regional variation, with much higher levels of unemployment in the aforementioned regions (HCSO, 2016). In great part, the reduction in the official national unemployment is due to the expansion of public works programmes across Hungary (see below).

Figure D.1: Unemployment Rate in Hungary



Source: Hungarian Central Statistical Office (HCSO, 2016)

First launched in the 1990s, the incumbent political administration has sought to extend the use of public works schemes since 2010, with the vast majority of employees engaged in simple delivery and service occupations, followed by agricultural, cleaning, building, forestry, farming and fishing occupations (Ministry of Interior, 2016). Between 2011 and 2015, the average monthly number of individuals employed by a public works scheme has increased by 175 per cent (Ministry of Interior, 2016: 9). This sharp increase has come under criticism from the national and international community due to questions surrounding its sustainability and effectiveness as a labour market strategy and economic policy (Cseres-Gergely, 2014). The exit rate from public works to the primary labour market is just 13 per cent and the overrepresentation of Roma populations employed presents problems for their social and economic integration (Cseres-Gergely and Molnár, 2015). Besides this, the living and working conditions created through these programmes can lead to high levels of clientelism and poor living standards with poor job insecurity and remuneration well below the national minimum wage.

Since gaining political power in 2010, the Fidesz-Christian Democratic People's Party coalition government has overseen an on-going and deepening social crisis. Weak economic growth and a high budget deficit have been met with extensive cuts to public and social services, particularly in the areas of health and education. At present, more than a third of the Hungarian population is at risk of poverty or social exclusion and living standards have severely deteriorated (Eurostat, 2015). The rise of radical far-right nationalism and the Jobbik party has occurred alongside increased discrimination of the Roma population. In addition, Hungary has also witnessed a weakened rule of law and an increasing censorship of the free press and media. In recent years, these events have contributed towards a shrinking social economy and civil society sector (USAID, 2015: 94-102).

Prime Minister Viktor Orbán, and his government have undertaken to suppress a wide range of dissenting civil society organisations and voices such as advocacy and rights-based groups. Watchdog organisations and external funding entities have been harassed, threatened and intimidated. Funding has been cut or re-allocated if organisations oppose the position or measures taken by central and local government. This has led to a sustained reduction in the organisational capacity and autonomy of the social economy. The Non-profit Act introduced in 2012 more closely ties the public benefit status of civil society organisations 'to the execution of legally prescribed state or municipal tasks and services and require reference to concrete legislation in organizational statutes' (USAID, 2015: 95). Given the heavy reliance of the Hungarian third sector on public funding, this means civil society activity has become more instrumentally contingent on the policy objectives and operations of the state. Social sector organisations are also confronted with budget cuts and a reduced role in service provision due to the centralisation of public services. As the share of state funding received by civil society organisations continues to decrease, their financial sustainability and independence has come under threat (USAID, 2015: 94-102). This has significant implications for social innovation within the Hungarian social economy. Against this backdrop, the remainder of section D explores the extent to which public support to 'new type' social co-operatives represents a risk or opportunity for fostering social innovation capable of tackling marginalisation. First though, it is necessary to consider the interaction between domestic and EU policy agendas and what bearing this has on the operational activities of 'new type' social co-operatives.

D.2 Interaction between domestic and EU policy agendas

The European Structural and Investment Funds are the principle tools for Pan-European investment and policy implementation across Europe. Across a range of investment areas, there are five main co-ordinated funds: the European Regional Development Fund (ERDF), the European Social Fund (ESF), Cohesion Fund (CF), European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The allocation of these funds and their operational programmes are linked to, and underpin, the overall policy framework for the European Union. The Europe 2020 strategy is the European Union's jobs and growth strategy for the period 2010 to 2020, and seeks to encourage 'smart, sustainable and inclusive growth' (European Commission, 2015). In keeping with the European Commission's interest in the policy concept of social innovation, regulation of the European Structural and Investment Funds identifies this as an investment priority and therefore represents the EU's biggest financial commitment in this area. Over 60 per cent of European Structural and Investment Funds are dedicated towards economic development and job creation. New opportunities for social innovation are linked to urban regeneration and cities, microfinance, the social economy, workplace innovation, incubation and social inclusion. Reflecting on the achievements made to date, the Bureau of European Policy Advisers (BEPA) suggests that 'a social innovation' culture has spread in support of the Europe 2020 Strategy and its implementation' (European Commission, 2014b: 9). In the coming years, EU member states receiving these funds will be required, where appropriate, to report on progress in the implementation of actions in the field of social innovation (European Commission, 2013a).

Over the operational programme period running from 2014 to 2020, the European Structural and Investment Fund has a budget of 454 billion euros. Of this, 25 billion has been allocated to nine national and regional programmes in Hungary, with a further 4.63 billion euros committed through national contributions. The principle majority of these funds are being channelled through the ERDF (43 per cent), CF (24.1 per cent) and the ESF (18.8 per cent) (European Commission, 2016a). These are being put towards a variety of different ends that include: the development of social enterprises for the benefit of marginalised communities and individuals; assisting disadvantaged jobseekers into the open labour market; and contributing towards the reduction and prevention of poverty by improving social conditions and access to public services in deprived regions (European Commission, 2016a). Due to ex ante conditionalities and the lack of an explicit social innovation policy agenda, Hungarian policy instruments and funding programmes tend to reflect and replicate those which the European Commission deem to be strategically valuable (cf. Lendvai and Stubbs, 2015). Many of the Hungarian regulations pertaining to the legal status and operation of co-operatives and social enterprises have been developed in direct reference to EU statutes and guidelines. For example, the Ministry for National Economy 'responsible for the drafting of EU co-financed operational programmes containing, inter alia, grants in support of social enterprises, has based its definition of eligible beneficiaries on the European Commission's approach' (Vincze et al., 2014: 1).

Subsequent to the economic shocks experienced during the Great Recession, Hungary has witnessed an, albeit slow, recovery since 2014. In spite of this, entrenched social problems persist with high levels of poverty, unemployment and poor regional development. To tackle some of these socio-economic challenges, the Hungarian government has drawn heavily on public works schemes as its primary employment strategy. Since 2011, spending on Hungarian public works schemes has more than quadrupled. Whilst providing a temporary solution to increased levels of structural unemployment, there is some concern as to whether these offer a sustainable approach to activation policy. Only 13.1 per cent of participants successfully transition into the open labour market and, subsequent to leaving, almost two thirds return within six months to public works schemes (European Commission, 2016b: 5). Some have suggested this is producing a residual underclass of low-paid workers that is failing to address the root causes of poverty and unemployment by stifling private sector and social economy development. Policy recommendations offered through the European Semester have encouraged the Hungarian government to address the overreliance on public works schemes and thereby enable the effective reintegration of jobseekers and disadvantaged individuals into the open labour market. In addition, the European Commission has recommended government measures to increase transparency and accountability in public procurement processes (European Commission, 2016b).

Social co-operatives, and 'new type' social co-operatives in particular, have been presented as a potential mechanism through which to facilitate the social and economic integration of unemployed and disadvantaged members. Since their legal recognition in 2006, the number of operational social co-operatives has fluctuated significantly. According to the National Alliance of Social Co-operatives, there were 33 social co-operatives in 2007, 203 in 2009, 30 in 2011, and peaking at 936 in 2013. More recently, the number of social co-operatives appears to have slightly stabilised (494 in 2014 and 587 in 2015), but it remains to be seen whether these will remain operational in the future (NAoSCo, 2016). Despite the ostensible growth in the number of social co-operatives, many remain 'inactive' and/or do not continue functioning beyond their public funding and support period. The majority of social co-operatives are engaged in service work (46 per cent), agricultural employment (28 per cent) and industrial activities (17 per cent) (NAoSCo, 2016).

Through EU funding and national co-financing programmes, substantial resources have been dedicated towards the establishment and operation of social co-operatives in Hungary. For example, the Social Renewal operational programme offered co-financed public grants to support the development of the social economy and social co-operatives in particular. For the period 2014-2020, a range of operational programmes have been adopted through substantial co-financing provided by the European Social Fund, European Regional Development Fund and Youth Employment Initiative. The Economic Development and Innovation operational programme in Hungary is the largest of its kind in the EU and supports low-skilled and young unemployed individuals to find a job, development and training opportunities for marginalised individuals and communities, a greater role for social enterprises and the social economy in Hungary. The Human Resource Development operational programme will make up over 11 per cent of all EU funding received in Hungary between 2014 and 2020. This operational programme has a particular focus on effective labour market reintegration and the establishment of 500 micro, small and medium-sized enterprises, including social economy organisations. Similarly, the Territorial Development operational programme supports job creation, inclusion and anti-poverty action through the promotion of local economic development and social entrepreneurship (Government of Hungary, 2013).

In conjunction with support and grant-making through the Ministry of Home Affairs (Interior), substantial efforts have been taken to foster the development of the social economy, and especially social co-operatives addressing unemployment, poverty and poor social conditions of disadvantaged members. Reflecting on the role and impact of EU co-financing and operational programmes, we now turn to consider whether the regulatory environment through which social co-operatives receive national and EU financial support demonstrates the capacity to foster or inhibit effective social innovation.

D.3 Fostering Social Innovation? Finance, Partnerships & Networks

The introduction of 'new type' social co-operatives in Hungary was motivated by a policy imperative to: tackle high levels of unemployment amongst disadvantaged populations and communities; promote exit from public works programmes through effective (re-) integration into the open labour market; and foster the capacity of the social economy sector to contribute towards social and economic development. Alongside changes in the regulatory environment surrounding social co-operatives, domestic and EU funding is introducing new actors, networks, partnerships and finance into the Hungarian social economy. With that in mind, we now turn to consider what bearing these governmental mechanisms are having on social innovation and its capacity to tackle marginalisation in the Hungarian context.

D.3.1 Financing Social Innovation

As previously stated, the scale of investment in social co-operatives in Hungary is unprecedented with dramatic increases in funding observed since 2007 (NAoSCo, 2016). The majority of this funding is tied to the establishment and operation of organisations contributing towards work integration. Following the legal recognition of social co-operatives as an organisational form, the National Employment Foundation (OFA) received governmental funding (HUF 945 million) to support the creation of 50 sustainable social co-operatives between 2007 and 2011. During this period, two grant programmes were conceived. The funding initiative, 'Co-operate 2007' supported 36 social co-operatives in total and those receiving funds had to ensure that at least 50% of their members were unemployed for a minimum of three months prior to engagement. Due to restrictions against agricultural activities, many prospective organisations were ineligible to apply for funding (Simko and Tarjanyi, 2011).

Building on the previous funding round, 'Co-operate 2009' aimed to support organisations that had previously received an OFA grant and had remained operational thereafter. The call for tender was for a smaller amount of money, with an expectation that the grant was match-funded by the social co-operative by 50 per cent. Only fifty per cent (10) of those applying were successful. Those organisations that participated in both funding rounds were engaged in activities such as the provision of local or social services, out-sourced governmental services, and handicraft and food production. Despite substantial financial backing, a relatively small number of the social co-operatives remained operational and the initial target of 50 social co-operatives was not reached.

This failure to foster social innovation, in spite of significant government funding, stems from both the approach taken to financing mechanisms and the environment in which social co-operatives were attempting to operate. Firstly, there was little, if any, information required from applicants about their business plan or any market scoping they had undertaken prior to applying for funds. Prospective grantees were provided with very little time, expertise or support to establish their social co-operative and there was a reduced pool of applicants as a result. In addition, there were some delays in the administration of funds, which compounded the lack of access to capital and liquidity faced by successful applicants. Secondly, there was little monitoring or enforcement of the co-operative principles that are supposed to guide operational activities (i.e. self-help, self-responsibility, democracy, equity, and solidarity) and, as a result, there was a power imbalance between members within some organisations. Beyond this, there was a limited market for certain products and services offered and social co-operatives struggled to build partnerships with local stakeholders from the public and private sectors.

In (partial) response to some of these challenges, the TAMOP scheme 2.4.3B (as part of the social renewal operational programme) was launched in 2010 to ‘disseminate the social co-operative form and support disadvantaged people through improving their employment opportunities and creating co-operatives members through them’ (Simko and Tarjanyi, 2011: 10). Eligible organisations were those social co-operatives that demonstrated some capacity for community development alongside the public and social utility of their operations. There had to be a minimum of 4 employees who could be classified as ‘disadvantaged’. This included ex-prisoners, those with a disability, those with low levels of educational attainment, long-term employed, etc. It was also a requirement that 75 per cent become co-operative members within 15 months. Restrictions were placed on what grants could be spent, including caps on expenditure on organisational infrastructure and assets. Central to the scheme and its capacity to finance social innovation, was a requirement for funded social co-operatives to consolidate their resources and become self-sustaining after a specified period of time. To address some of the difficulties associated with the entrepreneurial character and financial sustainability of previously funded social co-operatives, the business strategy of applicants was taken into account when allocating grants to organisations. However, in tension with this objective, was a stipulation that income was deducted from the grant amount, which under certain conditions, created a perverse incentive for revenue generation.

Despite this, the newly introduced conditions attached to funding for social co-operatives appeared to improve the prospects for their operational capacity and financial sustainability. However, the increased emphasis placed on the entrepreneurial character also appeared to undermine and compromise the co-operative principles of many of the social co-operatives funded (Simko and Tarjanyi, 2011). Such emphasis was placed on the business imperative of organisations, that attachment to the local community was minimal and the self-actualising potential of operational activities were undermined by low levels of pay and tensions between ‘management’ and ‘employees’ (Simko and Tarjanyi, 2011). Based on lessons learnt, the OFA network recommended that there be: greater match-funding; longer-term funding rounds to allow social co-operatives to embed within their local community and build capacity; ensure greater adherence to the principles upon which social co-operatives are supposed to operate; greater collaboration between social co-operatives and local municipalities particularly through outsourcing service operations and provision (Simko and Tarjanyi, 2011).

Some of these recommendations have been taken on board in the national reform programmes of the Hungarian government. With a total budget of 15 billion HUF, Hungary launched an operational programme co-financed by the European Social Fund running between 2012 and 2015. This initiative aimed to 'support and develop businesses operating or newly established in the area of the social economy, social co-operatives in particular (…) which will in the long-run enable the unemployed to find employment on the open labour market and to thereby obtain a more secure living' (Government of Hungary, 2012: 31; KDI, 2015). Viewing the social economy as a unique mechanism to stimulate labour demand, there were two key policy priorities pursued by the Hungarian government. Firstly, job creation within the framework of the social economy by supporting the employment of 2,200 disadvantaged people through social co-operatives. Secondly, enhancing the employability of targeted populations by improving the human capacity and capital of employment co-operatives. This included funding initiatives to engage at least 1,800 in employment co-operatives, and eventually, the open labour market. In this regard, public funding was channelled towards social co-operatives on the basis that they offered an opportunity for disadvantaged individuals to transition from public works schemes into either private sector and/or self-employment. According to the political and policy discourse, these financing initiatives were concerned with safeguarding the simultaneous social objectives and financial sustainability of social co-operatives (Government of Hungary, 2013). A combination of grants and loans were administered to 'help strengthen the activation elements of public work and the self-sustainability of the social economy, which enable the interim employment of public workers' (Government of Hungary, 2016: 11).

This is perhaps symptomatic of a broader tendency in Hungarian public policy to conceive of the social economy and its public utility as a vehicle through which to achieve pre-defined policy objectives. According to policy discourse, the development of the social economy has been motivated by a desire to improve the social conditions of marginalised individuals and communities, reintegrate disadvantaged populations into the open labour market, and tackle unemployment. However, financing mechanisms have tended to focus on the latter two policy aims with the social economy understood as an instrumental means, rather than social innovation as a holistic policy objective and end in and of itself. EU and domestic funding, alongside changes in the Hungarian regulatory framework, present a number of opportunities to finance social innovation and these have, in certain instances, created economic space for social co-operatives. However, this has not always lead to sustainable, or socially co-operative principles in practice.

Initially, public funding failed to improve the self-sufficiency and financial sustainability of social co-operatives. Based on lessons learnt, successive rounds of public funding have placed an increasing emphasis on the entrepreneurial character and business strategy of those applying for funds (Government of Hungary, 2014). However, in seeking to build the capacity of these organisational types, public policies appear to be compromising the non-economic objectives underpinning the social co-operative movement. In many cases, policy instruments are financing and supporting operational activities that are in contravention of Act X. 2006 that requires social co-operatives to satisfy the social, economic, cultural, and educational needs of their members.

This is explained by a lack of policy attention to the conditions under which social co-operatives apply for funds and operate within the local economy. Domestic and EU funding programmes have principally supported social co-operative as a mechanism through which to promote the *temporary* employment of disadvantaged members and promote their (re-) integration into the private sector. In this regard, they have been conceived of and supported as a 'transition vehicle', rather than alternative model of production, consumption and employment. In other words, they are financed as a policy tool, rather than a policy objective. This has compromised the integrity of the social co-operative model, with some funded organisations failing to realise their social and economic potential due financial mismanagement, rent-seeking and poorly realised employment and development opportunities for co-operative members. This has been exacerbated by funding initiatives that grant large amounts too early i.e. to social co-operative that are ostensibly only established for the purposes of securing funding. Greater efforts to make funding conditional upon the fulfilment of co-operative principles and sustainable operational activities as an end in themselves could strengthen the capacity for Hungarian public policy to finance social innovation in this area.

D.3.2 Public-private partnerships and effective networks to support social innovation

To a great extent, the legal status and regulation of social co-operatives in Hungary has always been concerned with creating partnerships and networks between private and public actors within the sphere of the social economy. In 2006, Act X. that specified the organisational character of social co-operatives, embedded some degree of institutional hybridity into their operational activities. For example, according to these regulations, an education organisation has to participate as a founding member in school co-operatives (Kun and Rossu, 2014: 201). In addition, representatives from an education organisation and those responsible for education provision must be members of the supervisory board. This embedding of organisational representation and governance is intended to create an alignment between the various interests of co-operative members and those parties that have a vested interested in the social and economic outcomes pursued. It also enables the transfer of assets, resources and capital to support the effective operation of a school co-operative.

Similarly, changes in social co-operative legislation that were brought into effect in 2013, introduced local municipalities as central actors in this organisational form. As detailed above, these ‘new type’ social co-operatives were introduced with the explicit governmental aim of channelling public works participants into social economy organisations. It was hoped this would increase the prospects for disadvantaged populations to develop their human capital and transition into the open paid labour market, self-employment and/or the social economy sector.

> *‘The operation of this new type of social cooperative was made possible by the amendment of Act XLI of 2013 and other laws (duty law, social legislation, personal income tax legislation). The assets procured within the framework of public works and the theoretical knowledge and practical skills acquired through training may partially lay the foundations for the initial operation of social cooperatives. The Programme Coordination Office for Social Cooperatives (Office) was set up under the auspices of the Ministry for Internal Affairs on 19 December 2012 with a view to creating and improving the operating conditions of and providing legal support for the new type of social cooperatives’ (Romadecade, 2013: 15).*

Due to their very small size and scale, newly established social co-operatives typically have between 7 and 10 members and in many cases very few, or no, employees. This greatly inhibits their capacity to pursue their social mission as well as safeguard their self-sufficiency and financial sustainability. In order to strengthen the economic position of social co-operatives as ‘market operators’, introducing local municipalities as co-operative members, made it possible to facilitate the transfer of public works tools and resources to social co-operatives (Government of Hungary, 2014). Undoubtedly, these new partnerships between private actors (within the social economy) and public actors (within local municipalities and public works programmes) represent a unique opportunity to enhance the operations and impact of social co-operatives. Ostensibly, these changes in legislation have not only consolidated public-private partnerships, but also created an alignment of interests between varied stakeholders.

Prior to the introduction of ‘new type’ social co-operatives as a legal entity, social co-operatives were often perceived and received as competitors by local municipalities for delivering services. However, as members of a social co-operative, local municipalities can now have a stake in the successful operation of social co-operatives and the funds that they receive. Given the infrastructure and regional knowledge inhered in local government, municipalities as co-operative members represents a resource for social co-operatives to draw upon to more effectively embed themselves within and contribute towards the social, economic, cultural needs of the local community. Having said that, this is a rather idealised interpretation of these public-private partnerships and their significance for the potential and members of social co-operatives.

First and foremost, the introduction of local municipalities undermines the democratic principles that are supposed to underpin co-operative entities. Given their privileged role and position within the economic, social and political sphere, local municipalities and their membership runs the risk of influencing the strategic and operational decision-making of other co-operative members. As ‘gatekeepers’ to employment, funds and services, there is a potential for conflicts to arise between the interests of local municipalities and the interests of social co-operatives and their non-governmental members. In this regard, the introduction of the powerful local government as a member is likely to threaten the integrity of the one member, one vote principle in practice. Co-operative members may feel pressured or coerced into taking decisions that favour (central or local) governmental priorities, rather than co-operative interests and principles.

Secondly, social co-operatives are not able to obtain normative public support when providing public social services. This makes it particularly difficult for ‘new type’ social co-operatives to take any form of advocacy role that sensitises public consciousness to social issues and/or injustices in a way that mobilises resources, activity or momentum. Whilst local municipalities enable the transfer and use of resources that may enhance the operational capacity of social co-operative, these kinds of public support equally usurp the autonomy of co-operative members and employees. This inhibits some of the key actors within the Hungarian social economy to take social and political action and/or pressure state organisations.

Thirdly, the integration of local municipalities and their strategic and procedural agendas within ‘new type’ social co-operative exposes social economy organisations to the risk of ‘mission drift’. Particularly within the relatively under-developed social economy in Hungary, the strategic agenda of the sector is still nascent and needs to be conceived by and for Hungarian civil society, as opposed to public sector interests. Very often, within political and policy discourse, social innovation is presented as an opportunity to capitalise on the strengths (whilst also mitigating against the weaknesses) of the private, public and third sectors. Within a framework of public service reform, social innovation as a policy concept, has sought to bring private actors, features and logics (from the market and civil society sector) into the operation of public services and institutions. In contrast, public policies within the Hungarian context have sought to embed public features into the operation, regulation and decision-making of private social economy organisations.

Cumulatively, this raises a number of challenges for Hungarian public policies that, at least in theory, exhibit some capacity to build public-private partnerships capable of fostering social innovation. In practice, a series of asymmetrical power relations are sustained and created through ‘new type’ social co-operatives. This includes between co-operative members, between social co-operatives and local stakeholders and between the broader public sector and social economy. Public measures have tended to restrict the democratic, financial and operational autonomy of social economy organisations (USAID, 2015), and can therefore be understood as supporting the social economy in a manner that aligns with and reinforces existing power structures.

Another additional prospect presented through the introduction of 'new type' social co-operatives is the development of alternative collaborative networks that present an opportunity for social innovation. According to the OFA network, the presence of local governmental members in social co-operatives would:

> *'foster local cooperation and would improve local embeddedness of social cooperatives. Local communities would strengthen, and new forms of local employment and community building programs could be implemented as a result of cooperative and local government cooperation'* (Simko and Tarjanyi, 2011: 18).

However, within funding and support programmes the role of community development is often neglected and overlooked (Havas and Molnár, 2016b: 2). Increased emphasis on the for-profit status of social co-operatives has come at the detriment of measures that offer funding and support for organisations to create bottom-up networks and projects contributing towards community development and/or social integration. The operational programme to support the establishment of employment co-operatives did commit a substantial amount of funding to the establishment of a national network. However, there has been much less attention to localised network and community development that could increase the efficiency and effectiveness of work integration measures. This is exacerbated by the short-term nature of public funding available, which gives limited time for social co-operatives to embed and develop networks of action and organisation between community members and stakeholders.

To conclude, public measures to support the development of 'new type' social co-operatives in Hungary are creating new public-private partnerships and alternatives networks of governance and action between co-operative members, municipalities and public works schemes. However, these partnerships and networks are operating in deleterious ways that consolidate, rather than disrupt, existing power relations. This is restricting the strategic and operational autonomy of social co-operatives and is compromising the democratic principles upon which they are supposed to be founded. Historically, the co-operative movement has, with unfortunate exceptions, centred on resisting the structural forces that impinge on the agency, autonomy and wellbeing of less powerful individuals and communities. To this end, their organisational character and activity is conventionally predicated on counter-mechanisms and collective acts of resistance against the institutional conditions that lead to disempowerment (of individuals, groups or communities). Within the Hungarian context, policy instruments have principally supported the social co-operative 'movement' in a way that undermines these co-operative ambitions and stifles economic space for genuine social co-operatives that might contribute towards social innovation.

D.4 Tackling Marginalisation?

Within the Hungarian context, social co-operatives are publicly supported through a range of regulatory provisions and funding instruments as a policy tool to create 'employment opportunities for its unemployed and/or marginalised members, as well as improving their social conditions in other ways' (Havas and Molnár, 2016b: 1). Public policies supporting the activation and labour market integration of targeted populations through social economy organisations have become increasingly popular and widespread within and across EU member states. In fact, work integration social enterprises (WISEs), have very much been a cornerstone of the European Commission's social renewal, employment and economic strategy. Employment is widely recognised in the EU public policy as mitigating against certain factors of disadvantage that lead to marginalisation and vulnerability. At least within the EU context, this is symptomatic of the EU definition and indicators used to measure the prevalence of being 'at risk of poverty and social exclusion'. This measure includes, *inter alia*, income, material deprivation and work intensity. Whilst this captures the multi-dimensional character of marginalisation and factors that contribute towards it, it nonetheless conflates poverty alleviation with a transition into or participation in the primary labour market.

This tendency, within policy discourse and decision-making, to present activation as a measure contributing towards the social inclusion of marginalised individuals and communities often neglects the quality of work undertaken, the remuneration of employees and the temporality of labour engagement for marginalised populations. For example, despite a falling unemployment rate since 2010, living standards have also been declining and more than a third of people remain 'at risk of poverty and social exclusion' in Hungary (Eurostat, 2015). Beyond this, WISEs and the public support they receive, overwhelmingly focus on equipping unemployed or disadvantaged individuals with the 'skills', 'resources', 'knowledge' and 'resilience' they ostensibly need to integrate back into the open labour market. Much less attention is given to ways in which the social economy might improve features of the private market, or how social economy practices could be replicated and imported into private (for-profit) operations. Without greater consideration of this, social innovation policy instruments run the risk of offering individualised solutions to structural un(der-)employment and the social and economic disadvantages arising from this. Hungary is no exception to this, with the utility of the social economy principally supported in ways that tackle marginalisation through labour market integration, as opposed to other means that seek to socialise the market economy.

It is useful to situate Hungarian policies designed to support social economy organisations that improve the employment and living conditions of disadvantaged populations within a broader context of public service and welfare reform. Alongside the development of ‘old’ type and ‘new’ type social co-operatives, ‘the government has shortened unemployment insurance availability to 3 months and made public works the most important employment policy measure: it claimed almost half of the employment policy budget in 2012 and even more later on’ (Cseres-Gergely, 2014: 5). The Fidesz-Christian Democratic People’s Party coalition government has brought in a suite of reforms that restrict entitlement to social security, intensify welfare conditionality and increase the use of benefit sanctioning. These measures have caused significant financial hardship for affected social security claimants who either lack the ability or means to secure and maintain gainful employment. With this in mind, the marginalisation that ‘new type’ social co-operatives seek to address can be understood as the product of social security reforms and measures implemented by the Hungarian government that have further denigrated the social inclusion of particular groups. The salience of public work programmes for the registered unemployed has given rise to the need to reintegrate participants into the open labour market through ‘new type’ social co-operatives. Of course, other labour market policy tools could and should be used too and may actually prove more important and effective.

To support the development of ‘new type’ social co-operatives that allowed local municipalities to become co-operative members in 2013, a variety of other financial instruments have been used to create economic space for their operational activities. This includes the provision of additional tax advantages and reliefs. Despite contradictions with national laws and regulations, these social co-operatives were also granted public benefit status that granted them entitlement to favourable concessions. In addition, to increase the economic viability of social co-operatives, special provisions have been granted through *sui generis* employment regulations that apply to co-operative members who are either registered as unemployed or participating in a public works scheme (Havas and Molnár, 2016b). The new Labour Code of Hungary (ACT I. 2012) grants social co-operatives exemption from certain labour regulations ‘in order to formalise contributions from members whose main purpose is self-subsistence’ (Cseres-Gergely, 2014: 5). However, this atypical employment relationship also exposes co-operative member employees to exploitative working conditions and relationships. Through these provisions, co-operative employees can effectively become temporary agency workers with very little job security and no basic rights to sick, annual, or parental leave. The social co-operative is allowed to pay below the minimum wage and compensate employees through benefits-in-kind, rather than paying wages. To support the uptake of this *sui generis* type of employment, the National Employment Fund has offered grants ranging between 2 and 10 million HUF to ‘new type’ social co-operatives.

Whilst these measures may subsidise and extend the operational activities of certain social co-operatives, they do not create the conditions for addressing existing power relations between private, public and civil society actors, nor do they ostensibly advance the material or social condition of some of their members. In fact, stakeholders have criticised the measure suggesting that it ‘further enhances vulnerability and is likely to drive wages down’ (Havas and Molnár, 2016b: 3). As detailed in the previous sub-section, the introduction of local municipalities also propagates asymmetrical power relations that distort the co-operative and democratic principles underpinning the effective operation of social co-operatives. The lack of emphasis placed on community development, social cohesion and empowerment also belies the transformative potential of public measures to support the social economy in Hungary. The top-down approach taken to the means and ends of social innovation inhibits grass-roots social, economic and political action. This renders the activities of ‘new type’ social co-operative as limited in scope and constrained in their capacity to tackle societal problems and issues faced by extremely deprived regions and communities.

Taken together, this exposes co-operative members, and disadvantaged populations of the local community within which ‘new type’ social co-operatives operate, to a number of risks that may serve to worsen marginalisation. The high levels of vulnerability and consolidation of power that ‘new type’ social co-operatives engender, may lead to clientelist networks of need provision that serve to further denigrate the social, economic and political position of marginalised groups reliant on social services, public works employment and/or social assistance.

Whilst operational programmes have expressed the intention to improve the human capacity and capital of those engaging with social co-operatives, there is little specification as to how organisations, and the activities they support, might achieve this. Beyond a perfunctory conception of participation in the open labour market, measures to empower and improve the human capabilities of marginalised populations are somewhat limited within ‘new type’ social co-operatives. As a result, this organisational form and the public policies designed to support it give limited opportunity for marginalised and targeted populations to define and pursue their own ends.

E Distinctive Policy Features: Historical institutionalism & social innovation

Thus far, this report has provided an in-depth consideration of three different cases supported by public policies that ostensibly exhibit the opportunity to instigate social innovation: the PAAVO housing programme in Finland, SIBs in the UK and social co-operatives in Hungary. This examination has principally focused on the origins, effectiveness and efficiency of social innovation policy-making and its contribution towards tackling marginalisation across different EU member states. Particular attention has been paid to public policy agendas that contribute towards the development of public-private partnerships, networks and financing mechanisms designed to support social innovation. Each of the cases, and the public policies designed to support them, have manifested themselves across divergent socio-economic contexts which points to the common and distinctive frames of reference and action in social innovation policy-making across Europe. This section considers what lessons this might garner about the institutional, cultural and social embeddedness of public policy and social innovation.

From the analysis undertaken, it is clear that social innovation policy, including its origins, operation and effects, is contextually and historically contingent. The contested policy concept of social innovation invariably intersects with established institutional frameworks that mediate its significance, salience and efficacy in mobilising networks of resource and action to tackle marginalisation. The diverse ways in which social innovation has been conceived and supported is subject to an 'historically constructed set of institutional constraints and policy feedbacks that structure the behaviour of political actors and interest groups during the policymaking process' (Béland, 2005: 1). Viewed through the theoretical lens of historical institutionalism (Hall and Taylor, 1996), it is possible to identify the amalgam of ideational mechanisms, socio-economic and political structures within which social innovation policy is embedded. Historical institutionalism 'views the polity as the primary locus for action, yet understands political activities, whether carried by politicians or by social groups, as conditioned by institutional configurations of governments and political party systems' (Skocpol, 1992: 41). With that in mind, there are inevitable limitations and challenges in terms of identifying 'best practice' and transferability across heterogeneous socio-economic contexts. As detailed in an earlier deliverable for the CrESSI research project, Finland, Hungary and the UK are diverse domestic contexts for social innovation.

Finland, as a hybrid market economy, has a relatively high level of decommodification and low levels of social stratification and marginalisation. With a high budget surplus and strong track record of investment in (public sector) innovation, the Finnish context represents a potentially conducive environment for the policy motif of social innovation. Examination of the PAAVO housing programme suggests it was a relative ‘success’ in terms of financing and fostering innovative solutions and services to tackle long-term homelessness. As an example of a centrally supported and financed initiative, the PAAVO housing programme was able to create effective networks and public-private partnerships that exemplify a social democratic interpretation of social innovation in public policy-making.

By contrast, the UK political administration has pursued and framed social innovation as an alternative policy approach and solution in rather different ways. With high levels of public sector debt, disinvestment in public and social services has been justified through institutional and rhetorical logics of resource scarcity. Against this backdrop, social innovation has received a privileged political and policy position as a means through which to leverage private social investment to deliver costly welfare services, but also instigate innovative welfare interventions that mitigate against the risks of service failure, improve social outcomes and save public money. SIBs have been drawn upon as one such mechanism through which to achieve these aims and these can be seen as symptomatic of a liberal market economy and welfare regime.

In the previous two examples, it is possible to see how social innovation, as a contested policy idea, intersects with established (yet divergent) modes of thought and conduct pertaining to welfare capitalism, civil society and the social economy. However, as a transition market economy, Hungary has undergone (and is still undergoing) substantial social, economic and political transformations. As a result, the Hungarian government has tended to interpret and support social innovation in ways that formally coheres with EU policy frameworks and financing programmes, but in actuality pursues rather different goals. As a public policy agenda, Hungarian support for social innovation has principally been motivated by a need to address high levels of structural unemployment and social exclusion. The introduction of ‘new type’ social co-operatives has undermined the democratic and co-operative potential of social economy organisations in Hungary. In many respects, this can be seen as characteristic of an eco-system that lacks the policy infrastructure and domestic institutional conditions to foster social innovation without corrupting its integrity. These conditions have deteriorated as the result of a political and policy climate in Hungary that has, in many respects, undermined democratic accountability and due process, aggravated social conditions and misused and misappropriated EU funds.

As outlined above, the framework conditions in member states are intimately linked to the construction and development of divergent social innovation policy agendas observable across Europe. These conditions are, in many ways, discrete and independently significant. However, their interrelation is perhaps most crucial for explaining the distinctive modes of thinking and action that characterise social innovation policy across the EU. Invariably ‘new ideas and solutions’, or at least the motivations behind them, are not conceptually pure. Arguably, the features of social innovation are a transmutation of (or indeed, against) previous approaches and paradigms. Within any setting, this transmutation is instigated by certain socio-economic, cognitive and institutional processes. Whilst many EU member states have observed conditions similar to those outlined above; their particular configuration within different domestic contexts has given rise to a plurality of social innovation policy agendas that are relatively distinctive.

The idiosyncratic nature of social innovation policy across the EU and its capacity to affect socio-structural change that addresses the social inclusion of marginalised groups is greatly dependent upon the character and dynamics of social and market fields (Beckert, 2009; Beckert, 2010). This points to a tension between public policy and social innovation. The former can be understood as a product of the interrelations between institutions, social networks and cognitive frames, whilst the latter seeks to change field dynamics. If effective social innovation entails a change in socio-structural and power relations with a view to improving human capabilities (Nicholls and Ziegler, 2014: 2), how can public policies (which are subject to the same forces) be meaningfully engaged in supporting it? As previously demonstrated, EU and domestic public policies designed to support social innovation are prone to institutional and logic capture (Edmiston, 2015b; von Jacobi et al., 2017). This is due to the fact that policies, rules and laws manifested in ‘institutions’, and their relationship to ‘cognitive frames’ and ‘social networks’, constitute the dynamic ‘social grid’ that can foster or constrain social innovation (Nicholls and Ziegler, 2014). How then, can institutions (policies, rules and laws) support social innovation without reinforcing or producing the same dynamics upon which their existence is so functionally contingent?

To answer this question, it is necessary to consider the role ‘institutions’ can and do play in changing their own significance and impact on social and market fields. As argued by Beckert (2010), institutions, cognitive frames and networks are in constant dialectic with one another. However, just as institutions (e.g. social innovation policies) have the capacity to affect cognitive frames and social networks; institutions (e.g. social innovation policies) and their interrelation with other social and market fields, have the capacity to affect institutions (policies, rules and laws). According to Hall and Soskice (2001: 9), institutions are ‘a set of rules, formal or informal, that actors generally follow, whether for normative, cognitive or materials reasons, and organisations as durable entities with formally recognised members, whose rules also contribute to the institutions of the political economy'. With this mind, a change in the 'institutions' of a given contextual setting is perhaps the most effective means by which social innovation policy can achieve a change in socio-structural and power relations to improve human capabilities.

At this point, it is perhaps useful to draw a distinction between the differing scopes and effects of social innovation and the public policies designed to support it. Nicholls and Ziegler (2014) outline three different types of effects of social innovation.

> *'Incremental innovation is likely to engage with specific failures in the provision of social goods at the grass-roots level, structural innovation rearrange power relations and social structures, and disruptive innovation replaces entire cognitive frames and institutions thereby reconfiguring the respective social grid.'* (Nicholls and Ziegler, 2014: 13)

Across the three cases considered in this report, the policy programmes pursued reflect a broader dissatisfaction with existing approaches and mechanisms of need provision. Paradigmatically, political and policy interest in the potential of the social economy and social innovation is underlined by a recognition that old or institutionalised policy responses inadequately address socio-economic challenges confronting EU member states. In Hungary, Finland and the UK, political administrations differ in terms of what respective role they consider civil society, the public sector and the private economy to play in fostering social innovation. Inevitably, this can serve to either confine or broaden the remit of policy measures designed to support social innovation.

Table E.1: Typology of Effects of Social Innovation

Type of Effect	Objective
Incremental	To fill gaps in the provision of social goods; improve the efficiency of provision
Structural	To rearrange institutions and networks for social goods
Disruptive	To change cognitive frames, social networks and/or institutions

Source: (Nicholls and Ziegler, 2014)

In Hungary, public policy measures and financing to support the development of 'new type' social co-operatives has tended to centre on incremental social innovations that seek to fill gaps in the provision of social goods and improve the efficiency and effectiveness of public works schemes in terms of tackling unemployment through effective labour market (re-) integration. In this regard, Hungarian social innovation policy has principally centred on improving the efficacy of public sector operations (or at least public sector performance through statistics), with the capacity and potential of the social economy treated as a somewhat secondary consideration. In the UK, SIBs also seek to improve public sector innovation and thereby improve social outcomes, but as a policy initiative, they also entail a reordering of the institutions, actors and networks engaged in need provision. The introduction of private social investment into outcome-based commissioning serves to shift the regulation and performance management (for better or worse) away from public sector commissioners and towards private sector actors and stakeholders. An ostensible commitment to improve social outcomes and impact measurement through SIBs has the potential to create economic space for civil society organisations to more innovatively, robustly and sustainably pursue their social mission. In this regard, SIBs are being used a policy instrument designed to support structural social innovation in the UK. It should nonetheless be noted that the majority of welfare interventions delivered centre on individualised solutions to socio-structural marginalisation.

In Finland, the PAAVO housing programme not only transformed housing support and service provision available, it also contributed towards a change in how the problem of long-term homeless is understood and how it can be addressed. Guided by the 'Housing First' principle, the Finnish government helped create alternative networks of support, finance and service provision to address limitations and constraints faced by the private, public and third sector in addressing the causes and effects of long-term homelessness. The costly re-purposing of shelters made it possible to affect changes in the socio-structural conditions, as well as human capabilities that contribute towards marginalisation. As a disruptive social innovation, Finnish public policy has exploited the finance, expertise and leverage that cross-sectoral co-ordination and activity engenders, to transform cognitive frames, networks and institutions that cause, and seek to address, long-term homelessness.

As detailed in Sections B, C and D, each of the three cases have had varying degrees of success in tackling marginalisation and fostering social innovation. However, to the extent that the policies supporting social innovation seek to do so across differing axes of socio-economic and political change, they can all be seen as fulfilling their intended policy objectives. In this respect, it is possible to delineate between those public policies designed to instigate social innovation (policies *for* social innovation) and those measures designed to foster public sector innovation (policies *as* social innovation). In Hungary, social innovation as a policy concept has been instrumentally drawn upon to improve the (if only superficial) efficacy of public service provision through measures that seek to draw on the potential of the social economy. However, without appropriate mechanisms and infrastructures of support for social economy organisations and actors, these measures are unable to fully capitalise on the opportunities that social innovation presents within a political climate that places very little value on civic participation, democratic accountability and human capabilities. In the UK, SIBs have been similarly established and supported in ways that contribute towards public sector innovation, but the integral role of civil society and private actors has been more effectively financed to improve the human capabilities of targeted populations. In Finland, a more integrated approach has involved policies for social innovation that directly support and focus on the capacity of civil society organisations. Whilst the PAAVO programme involved measures to improve public service innovation (via regulations, fiscal policy and commissioning), it has also pursued a strategy of social change entrepreneurship that has proven most effective in scaling social innovation capable of tackling marginalisation. This has also opened up opportunities for greater policy feedback and learning so that lessons are taken on board beyond operational programmes.

Despite these differing levels of social innovation policy and effects, a commonality is discernable across the three EU member states. In each of the three cases, public policies have mobilised networks of action to leverage financial resources and power relations in their existing form, rather than seeking to displace or change them. This has principally been undertaken in order to improve practical 'on-the-ground' solutions to extreme disadvantage or social exclusion. This is perhaps unsurprising given the tendency for public policy to support social innovation in top-down ways, rather than through bottom-up initiatives. However, it also points to the significance of the dominant cognitive structures that frame the content, remit and purpose of social innovation in policy-making. The purported success of social co-operatives, SIBs and PAAVO housing have been explained by an apparent alignment of interests amongst those organisations and actors involved in fostering social innovation. In reality, whilst all involved parties may have a vested interest in supporting a defined outcome or activity, cross-sectoral and partisan stakeholders invariably differ in the factors that motivate their engagement and involvement. In part, this is the appeal of social innovation as a policy motif – it can accommodate a plurality of motivations and actors towards a pre-defined social or economic goal (Edmiston, 2015c). However, this also highlights the presence and pervasiveness of broader cognitive frames that constrain the disruptive ends of social innovation policymaking.

Despite substantial ideological and structural differences within each of the member states considered in this report, social innovation has been drawn upon to validate the necessity and appeal of cross-sectoral collaboration and co-operation. However, the introduction of different actors and logics across sectors has predominantly been unidirectional. Social innovation has been acknowledged by the European Commission as ‘another way to produce value, with less focus on financial profit and more on real demands or needs… for reconsidering production and redistribution systems’ (European Commission, 2014b: 8). Whilst social innovation policy-making has actively supported the insertion of private features into the public and social economy sector, there has been much less policy attention and support given to introducing public and social economy features into the private economy. As a result, social innovation policy-making tends to centre on deficiencies within the public and social economy sector and precludes consideration of the private economy and its contribution towards marginalisation, but also most importantly, its significant potential as an agent in fostering social innovation more widely. This tendency within social innovation policy-making can be understood as a process of ‘centralised decentralisation’ in the mixed economy of welfare that reflects a reluctance to unsettle and displace the prevailing socio-economic and political order.

Table E.2: Framing of cross-sectoral collaboration in SI Policy

Cross-sectoral collaboration	**Exemplified in SI Policy Design, Implementation and Processes**
Public Sector ➔ Civil Society	Greater (social) impact measurement, accountability, transparency & resource
Civil Society ➔ Public Sector	Provision of expert, tailored, mission-driven services to targeted populations
Private Sector ➔ Civil Society	Greater discipline in performance management, entrepreneurial approach
Private Sector ➔ Public Sector	Marketisation, efficiency & innovation
Civil Society ➔ Private Sector	-
Public Sector ➔ Private Sector	-

In this respect, social innovation can be understood as an applied policy idea that is embedded within fundamental assumptions that form the prevailing policy paradigm and policy options available (Béland, 2005). Invariably, this dominant policy framework shapes and constrains debated policy alternatives and the ends towards which social innovation as a policy concept is put. Within the EU, the desire to do and achieve more with less (TEPSIE, 2014), has spawned an actuarial preoccupation with social innovation in policy discourse and decision-making. This was certainly reflected in the three cases considered, where a lack of ‘economic space’ framed social innovation as a policy solution to tackle resource scarcity. Despite varying degrees of public sector debt/ surplus, SIBs, ‘new type’ social co-operatives and PAAVO housing were all borne from a desire to reduce long-term public social expenditure. In part, this actuarial framework makes it possible to mobilise diverse interests and motivations around a common goal, activity or outcome. However, it also belies the ethical underpinnings to social innovation and leads to an inevitable quantification of marginalisation. According to such an approach, social exclusion, vulnerability and disadvantage are treated as problematic for economic development and/or for public sector efficiencies and costs, rather than problematic in and of themselves. Whilst the Finnish case is underpinned by a moral imperative to tackle long-term homelessness, all three cases nonetheless tend to financialise the social exclusion/ inclusion of targeted populations. This reflects a broader instrumentalisation of need provision, which EU social innovation policy operates within and, in certain instances, contributes towards (Grisolia and Ferragina, 2015). With this in mind, the following section considers the significance of social innovation policy-making and its capacity to tackle marginalisation.

F Social Innovation Policies: Tackling Marginalisation?

Previous sections of this report have already focused in detail on how different social innovation policies are implemented at the grass-roots level in terms of their impacts and outcomes for marginalised and vulnerable populations within EU member states. This section briefly considers some of the similarities, differences and lessons learnt from these three cases.

Underlying the political and policy discourse of social innovation is an ostensible commitment to building an 'inclusive and sustainable social market economy' (BEPA, 2010: 16). Within such a framework, the societal challenges faced by contemporary welfare capitalism are often recognised and presented as structurally determined. However, as demonstrated above, policy programmes that draw upon or pursue social innovation as a policy objective have very often privileged individual 'capital', 'skills' and 'competencies' as the central practical solution to tackling socio-structural marginalisation and social exclusion. Whilst this could be perceived as an inherent contradiction between social innovation discourse and policy implementation, it is perhaps still commensurate the current conception of marginalisation advanced by the European Commission, and the measures it deems appropriate and necessary in seeking to address it. According to the European Commission 'social innovations are… not only good for society but also enhance individuals' capacity to act.' (European Commission, 2013b: 6).

Such an approach to understanding social innovation and the social processes by which marginalisation is addressed, is able to accommodate the role of individual agency in socio-structural (dis)advantage. Indeed, attention to the '*actual* and *potential* factors of disadvantage leaves space for individual agency in the process of marginalisation as well as for overcoming it' (Chiappero-Martinetti and von Jacobi, 2014; von Jacobi et al., 2017: 5). This makes it possible to attend to the dynamic nature of marginalisation and the contingent conditions, factors and processes necessary to address it. At the domestic and EU level however, the structuration of agency, outcomes and opportunity is often overlooked in social innovation policy-making and implementation. This agency-centred conception of tackling marginalisation underplays that social processes and power relations that bear down on, constrain and undermine individual and collective agency of those experiencing marginalisation.

For example, SIBs focus on the attainment of social outcomes that address certain factors disadvantage that may lead to marginalisation (e.g. poor educational attainment), but do little to address the structural under-unemployment endemic to regions faced by poor economic development and growth. Equally, 'new type' social co-operatives – in principle – present an opportunity to improve the 'employability' of disadvantaged groups without sufficient attention to the prospect for and of labour market (re-)integration given micro- and macroeconomic challenges faced in Hungary. In certain instances, social innovation policy-making fails to consider how the positive attainment of social outcomes (and their subsequent utility) is greatly conditional upon a broader schema of structural factors that shapes the prospects for 'resources' to be transformed into achieved functioning. Whilst this may foster incremental social innovation, it invariably leads to remedial, rather than systemic public policy instruments. In these cases, the potential of social innovation, in both policy and practice, is likely to be constrained in terms of its success in addressing social inclusion.

Where public policy agendas and instruments target a greater deal of the actual and potential factors of disadvantage that cause marginalisation in a given situation, it is possible for a more disruptive kind of social innovation to be fostered. In Finland, the PAAVO housing programme not only supported long-term homeless people to define and pursue their own ends through housing support and social services; it also addressed a shortage of affordable and secure accommodation for targeted populations. This entailed a broader, structural change to the factors contributing towards homelessness that has proven highly effective in Finland. With this in mind, it seems that sustained commitment from the financial and decision-making centre of political administrations is necessary for public policies to foster systemic and disruptive social innovation that is capable meaningfully addressing both the causes and effects of marginalisation processes.

This is particularly significant given the short-term nature and horizon of many of the social innovation policy initiatives supported and implemented across the EU. In the UK, the project-based nature of SIBs has been presented as an asset and value to the attainment of social outcomes through intensive, dynamic and innovative welfare interventions. However, this often neglects the importance of service provision continuity and the sustained commitment to addressing the structuration of marginalisation through regulations, laws and policies. Similarly in Hungary, the time-limited nature of financing programmes is recognised as one of the key contributory factors that has inhibited the long-term financial and operational sustainability of social co-operatives in terms of their social benefits to co-operative members and local communities (Simko and Tarjanyi, 2011; Havas and Molnár, 2016a). Undoubtedly, project-based and longer-term initiatives are both necessary, but social innovation policy tends to centre on the former to the neglect of the latter. This perhaps stems from an inevitable tension between social impact measurement and the autonomy of social innovation actors and organisations supported through public policy and finances.

Reviewing the diversity of social innovation policy-making across Europe and the three cases considered in more detail here, there appear to be two ways in which social innovation is devised and implemented. Firstly, the decision-making centre identifies a social or policy problem and social innovation is then presented as a mechanism through which (?) to achieve an intended outcome. Secondly, social innovation is treated as an organising principle through which social and economic ends can be met. The subsequent identification of societal challenges then informs how social innovation might address the needs or marginalisation of a given population or community. Here, a distinction can be drawn between 'problem-centred' and 'principle-led' social innovation policy-making. There are, of course, normative underpinnings to both approaches, but the former is much more common in terms of drawing upon social innovation as a policy concept to target marginalisation. This is unsurprising given that social innovation has yet to embed itself as a cohesive policy paradigm either at an EU level or within EU member states. Whilst this 'problem-centred' tendency within public policy-making runs the risk of conceptual and applied slippage in terms of realising the means and ends of social innovation, it nonetheless presents an opportunity for creating more responsive and accountable services and activities provided through cross-sectoral collaboration.

Within the confines of conventional welfare capitalism, the provision of social and public services to disadvantaged populations has followed a model of public bodies and civil society organisations being funded or contracted to deliver a suite of service provision. On this basis, the design and performance of services is assessed according to the interventions undertaken, rather than the social outcomes achieved. In the case of 'problem-centred' policy-making, there is a much greater focus on contracting or funding the attainment of social outcomes achieved. This presents a number of opportunities for creating responsive and accountable public services. Target setting is by no means a new system of policy evaluation; but it's centrality to performance measurement and management is a relatively recent and novel trend in the EU social policy. Whilst, social innovation, as a policy concept, is not necessarily driving this trend, it does align with a broader recognition that outcome-focused and preventative service provision are key to public finances achieving social aims. For example, public policies designed to foster social innovation through SIBs in the UK, centre on a payment-by-results contract model that only pays for social outcomes achieved. It is therefore possible to see how 'problem-centred' social innovation can place beneficiaries, and improvement in their life circumstances, at the centre of public policy-making and finances. In this regard, an incremental (problem-centred) approach to social innovation may temper its systemic and disruptive potential but this can, in certain instances, situate marginalised populations in a relatively privileged position in the policy-making process.

In addition, this person-centred policy-making may present further opportunities for systemic and disruptive social innovation in the longer term. That being said, this opportunity and its realisation greatly depends on the specific ways in which targeted populations, marginalisation and capabilities are conceptualised within the decision-making centre.

Due to the specificity of marginalisation as a process and phenomenon within any given context, this will largely depend on the target population and group in question. In the UK, service beneficiaries receiving support and assistance through SIBs are, to a degree, granted some autonomy in terms of pursuing their own ends. However, these ends are only supported through a specified set of outcomes that, in many cases, reinforce and reproduce some of the dominant social networks, cognitive frames and institutions that structure marginalisation. In Hungary, there is much less emphasis on the individual capabilities of targeted populations in terms of allowing social co-operative members and affected communities to define and pursue their own ends. The relative absence of support and financing for community development in this case undermines the improvement of human capabilities in the short- and medium-term. In Finland, the PAAVO housing programme presents a number of opportunities to improve the central and human capabilities of long-term homeless people. For this targeted population, a degree of welfare conditionality is used to prevent drug and alcohol abuse within some sheltered accommodation. In this case, policy-makers and service providers justify the exercise of paternalism over targeted populations, as a necessary precondition for service beneficiaries to realise and pursue their own ends. In all three cases, materialist explanations and solutions to poverty (as opposed to ‘marginalisation’) are noticeably absent.

This underscores a tendency within social innovation policy-making to eschew questions concerning the redistribution of power and resources, whilst placing much greater emphasis on micro-level questions concerning individual agency and well-being. Within social innovation policy-making, the exercise of marginalised agency tends only to be supported and recognised in ways that consolidate the position of the existing decision-making centre. This distracts from the broader and more fundamental question of systemic and socio-structural change that could more effectively address the causes and effects of marginalisation. Capabilities associated with individual and collective political action, that contribute towards a transformation of the decision-making centre, rarely receive policy backing or support in EU or domestic social innovation policy. This comes some way to explain the ostensible complementary between social innovation and human capabilities in public policy-making. Within the EU political and policy discourse both are supported in ways that contribute towards incremental and localised improvement, whilst the prevailing socio-political and economic settlement remains largely unchallenged and unchanged. With this in mind, the following section examines the role of existing power relations in shaping the (a)political nature of social innovation in public policymaking across the EU.

G Conclusion: Power, Politics and Social Innovation

This concluding section examines the (a)political character of social innovation policy in the EU and what implications this has for socio-structural change. To varying degrees, the three cases examined in this report exhibit a tendency to operate within the established confines and power relations of the given country. As a result, public policies *as* and *for* social innovation seem predisposed to institutional and cognitive capture that limits their transformative potential. In seeking to identify how policy might best foster disruptive social innovation, public bodies are faced with a perennial challenge: how to unsettle and destabilise the power structures upon which, thus far, publicly sponsored social innovation has been so greatly dependent. That is, how to mobilise resource and activity that is essentially systemic without compromising the means and ends from which social innovation derives its value.

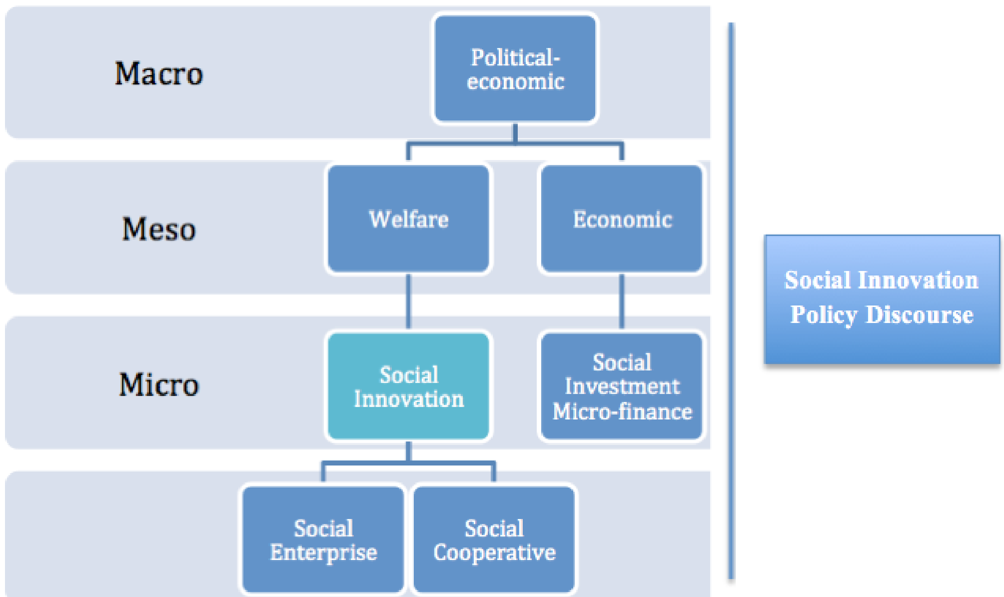
Examination of the three cases in Hungary, Finland and the UK suggests that, despite a plurality of applications and motivations, public policy agendas supporting social innovation rely upon and exploit hybrid networks of power that risk reproducing, rather than altering existing socio-structural relations (Mann, 1986). From this, it is possible to understand how social innovation as a policy paradigm is situated within broader domains of power that can either serve to stifle or enable its potential. Nicholls and Teasdale (2016) examine the interrelation between different policy fields to explore the significance of social enterprise as a policy paradigm in England and the extent of continuity and change observed over time. They argue that the micro paradigm of social enterprise is nested within a meso paradigm linked to the mixed economy of welfare, which is, in turn, nested within a 'neoliberal' macro paradigm. As a micro paradigm:

> *'the framework of cognitive and normative ideas behind social enterprise policies were clearly nested within, and shaped by, the ideational material cascading down from the neoliberal macro-paradigm. Ideational changes at the level of the micro-paradigm were not Kuhnian shifts, but rather an accommodation of normative differences between political parties within a coherent overall paradigmatic framework'* (Nicholls and Teasdale, 2016: 15).

Similarly, bi-partisan and cross-sectoral interest in social innovation as a policy paradigm operates within a broader macro-economic and political framework. However, contrary to policy treatment of social enterprises as 'nested' at the micro level, political and policy discourse presents social innovation as a transversal policy paradigm and opportunity to address the mobilisation of resources and activity at the macro, meso and micro level.

Particularly at the EU level, the policy paradigm of social innovation emerged from a recognition of the need to address structural factors in a manner that could contribute towards 'smart, sustainable and inclusive growth' (European Commission, 2015). Whilst the systems of power that structure inequality and marginalisation are problematised within such a framing, the utility and application of social innovation in public policy-making is conceived and supported in minimalist and revisionist ways at the micro-level.

Figure G.1: Social innovation as a transversal and nested policy paradigm



Source: Adapted from Nicholls and Teasdale (2016)

In spite of the rhetoric, this excludes meso questions concerning the role of the market economy in need provision. Equally, it distracts from the increasingly reductionist approach taken to welfare state spending and assistance that characterises a great deal of EU public service reform (Edmiston, 2014). The purportedly cohesive conception and pursuit of social innovation across policy domains and structural levels, obscures from the fact that social innovation is, in reality, a nested micro paradigm within the prevailing economic system in the EU countries. Whilst it has more recently been used to reenergise other micro paradigms (e.g. social enterprise), and re-frame meso paradigms surrounding welfare provision, social innovation public policy-making overwhelmingly operates in a way that aligns with and legitimises the existing socio-economic and political settlement.

Within the policy-making process, the power to identify, define and address societal challenges tends to lie at the political centre. Thus far, examination of EU and domestic social innovation policy suggests this has significant implications (and limitations) for addressing socio-structural disadvantage. Across the three cases examined in this report, social innovation policy-making has had some bearing on the institutions, social networks and cognitive frames that bear down on marginalised populations. For example, in Hungary and the UK, ‘new type’ social co-operatives and SIBs have both respectively given legitimation to, and shaped wider perceptions of, institutions in certain social groups. In Finland, the PAAVO housing programme has shifted cognitive fames associated with long-term homelessness in terms of its causes and remedies. Based on this, long-term homeless is now commonly regarded as an independent and prominent policy issue that demands its own particular set of interventions Finland. Across all three cases, policy initiatives have influenced the structure, perceptions and capacity of social networks within the social economy. In addition, all three cases have, to varying degrees, encouraged and supported stronger networks of co-ordination and collaboration between the public, private and third sectors. As illustrated in the case of Hungary, these collaborations are not always beneficial to civil society stakeholders or target beneficiary groups.

Table G.1: Social Innovation Dynamics in the Social Grid Model

Social Force	**Dynamic Effect**	**Social Innovation (Example)**
Institutions	Influence the structure of social networks	Build bridging social capital
	Make values socially relevant for cognitive frames	Influence regulatory norms
Social Networks	Establish collective power to shape institutions	Increase political mobilization
	Shape and diffuse cognitive frames	Deepen focused activism
Cognitive Frames	Provide legitimation and shape the wider perceptions of institutions	Build a social movement for change
	Shape perceptions of network structures	Change value perceptions of cultural material

Source: (Nicholls and Ziegler, 2014)

Overall, EU and domestic public policies have supported social networks in a way that contributes towards incremental social innovation through the fulfilment of pre-defined policy objectives. However, within the EU social innovation policy, there has been little, if any, regulatory or financial support given to social networks that strengthen the collective power of marginalised populations. Without these political networks of action, disadvantaged individuals and communities have little power to shape dominant institutions and cognitive frames that so profoundly affect the extent and character of social exclusion. A series of measures do encourage the incorporation of marginalised views and experiences into the policy-making process, but the agenda setting and decision-making centre remains largely unchanged in terms of the solutions to marginalisation deemed appropriate and necessary. If public policy-making in the EU continues to neglect the political mobilisation of those most negatively affected by structural inequalities (of power, resource and opportunity), social innovation is unlikely to fulfil its transformative promise. As the Hungarian case of ‘new type’ social co-operatives demonstrates, policy measures that stifle effective social and community development, are unlikely to support marginalised populations to shape and diffuse the cognitive frames and institutions that structure marginalisation. Not only does this constrain social innovation as a transversal policy mechanism, it also limits it potential as a nested policy paradigm that seeks to contribute towards more modest, incremental change.

According to Mann (2013: 1), power entails the ‘capacity to get others to do things that otherwise they would not do’. In this regard, a transference or realignment of power towards the powerless is central to the political project of social innovation. Without it, social innovation policy-making garners and gives credence to a conciliatory politics of need provision that focuses on ‘pragmatic solutions’ to ‘political problems’ regarding the redistribution of resource, power and opportunity. Within such a setting, social innovation policy runs the risk of de-politicising the causes of and solutions to marginalisation.

At present, there is a broad recognition in social innovation policy of the limitations and deficits arising from the existing socio-political and economic configuration. This is put towards a variety of different ends that have a number of positive social and economic outcomes for some of the most marginalised and disempowered citizens in the EU. There is, nonetheless, a political disinclination to identify and address the specific actors, institutions and processes that prove so fundamental to the structuration of disadvantage at the macro-level. In this respect, the apolitical framing of social innovation policy is both a vice and virtue in the political economy of welfare and marginalisation. On the one hand, the neutral framing of social innovation in public policy dissuades questions concerning culpability, accountability and responsibility regarding marginalisation. For example, questions as: who is responsible for rising levels of poverty and inequality? How should they be held to account? And what role can the market economy play in contributing towards inclusive growth going forward? Neglect of these questions essentially dissimulates political choices surrounding social innovation in the policy-making process (Grisolia and Ferragina, 2015: 167). On the other hand, the apolitical framing of social innovation policy makes it possible to accommodate a plurality of social, political and economic interests in mobilising resources and action (albeit remedial) to tackle marginalisation. Of course, this reveals an inherently political character to social innovation policy that is firmly embedded within the neoliberal paradigm of inequality and social exclusion.

The multiple framing and pursuit of social innovation in public policy makes it possible to encourage collective action *for* a particular outcome or activity, but this equally detracts from mobilising resources and individuals *against* the structural determinants of exclusion and neoliberal politics of inequality. As a result, the political subjectivity of marginalised individuals is often overlooked; as is their capacity to resist the institutions, ideals and processes that shape and constrain their capacity to define and pursue their ends. Going forward, it seems that the political subjectivity and collective action of marginalised groups is a key resource for ensuring social innovation policy is able to tackle the structural determinants of marginalisation and thereby contribute towards systemic and positive social change.

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The CRESSI project explores the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalized and disempowered citizens in society.

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